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CURRENT STATUS
HIGHWAY AND AVIATION TRUST FUNDS

(101-55)

HEARING

BEFORE THE

SUBCOMMITTEE ON
INVESTIGATIONS AND OVERSIGHT

OF THE

COMMITTEE ON
PUBLIC WORKS AND TRANSPORTATION
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

MAY 8, 1990

Printed for the use of the Committee on Public Works and Transportation

U.S. GOVERNMENT PRINTING OFFICE

35-419 WASHINGTON : 1990

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

H641-7

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CURRENT STATUS OF HIGHWAY AND AVIATION TRUST FUNDS

TUESDAY, MAY 8, 1990

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INVESTIGATIONS AND OVERSIGHT,
COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:10 a.m., in Room 2167, Rayburn House Office Building, Hon. Glenn M. Anderson (chairman of the subcommittee) presiding.

Mr. BORSKI [presiding]. Today the Subcommittee on Investigations and Oversight will hear testimony concerning the status on Highway and Aviation Trust Funds.

In 1956, Congress passed the Federal-Aid Highway Act, landmark legislation that served as the beginning of our great undertaking of linking this Nation with an interstate highway system, as well as providing the means to pay for that system, the Highway Trust Fund.

The Highway Trust Fund receives the dedicated tax receipts from the American public, receipts that were promised to be spent on highway and mass transportation needs. The American people deserve no less. Today we will examine why the Highway Trust Fund is accumulating ever-increasing balances, and why we are not spending those balances on transportation needs.

We will also hear testimony concerning the Aviation Trust Fund. While this committee's history with the Aviation Trust Fund does not reach back as far as the Highway Trust Fund, we face the same dilemma: How do we spend the accumulating balances building up in the Aviation Trust Fund so that the aviation taxpayer receives the benefits of an improved aviation transportation system.

The commitment we have made to the American people must not be broken. If the Highway and Aviation Trust Funds can support increased spending, let's get that on the record. If the reason we cannot spend down accumulating trust fund balances is purely budget driven, let's get that on the record.

I wish to thank the General Accounting Office and representatives from the Department of Transportation for appearing today, as well as the representatives from the many transportation associations and groups who are here today to add their concerns.

At this time I would like to recognize the distinguished gentleman from Ohio, our Ranking Republican Member, Bob McEwen.

Mr. MCEWEN. Thank you, Mr. Chairman. I appreciate your holding this hearing.

As many of you here are today aware, the trust fund issue has been of great interest to me. In fact, when I first came to Congress in 1980 and I was assigned, at my request, to the Public Works and Transportation Committee, I was immediately drawn into the debates and work on the Highway Reauthorization Bill for 1982.

I remember a great deal of discussion over the critical infrastructure needs we were facing at the time, the necessity of increased capital investment to retain competitiveness, and the prospect of increasing the gas tax in order to fund these great new programs and fulfill promises of an expanded transportation system.

So in 1982 that is exactly what we did: We raised the gas tax from four cents per gallon to nine cents per gallon in order to fund all of these necessary projects and investments. And we guaranteed the highway user that if they would pay this higher tax, we would deliver on this promise of an expanded and improved transportation network.

In 1982 the cash balance in the Highway Trust Fund was just over nine billion dollars. Today the cash balance is over $17 billion. Obviously, something went wrong somewhere.

The 1982 highway bill was crafted to both spend the money in the bank and spend the increased revenues, keeping enough in the account to cover unforeseen fluctuations in gas tax receipts. The bill provided authorization levels which paralleled expected receipts. But the end result has only been more money in the trust fund instead of more spending on highways. Worse yet, all estimates anticipate this balance growing even larger next year.

Now, I understand that the balance in the account is not free cash, but that approximately $20 billion in actual contracts are outstanding. However, I also know that the claims on the $20 billion in outstanding contracts, or the actual bills, will come in over a period of years, years when we will be collecting additional revenue to pay these commitments.

And this is how the program was designed to work. We collect the money so it is available when the bills come due. We don't need the cash on hand today to pay bills off tomorrow, as long as we make prudent forecasts and prudent obligations.

To ensure that these future commitments do not exceed future revenues, the trust fund is operating under the "deficit proof" Byrd Amendment; in other words, we must be able to guarantee that obligations made in any one year can be paid for by receipts collected within the next two years, when a large part of these obligations are expected to come due.

The bottom line is, despite these outstanding obligations, the program is operating as it was intended to operate and could, in fact, sustain much higher obligation levels.

In fact, the Department of Transportation has stated that indeed the trust funds could sustain higher levels of obligation. Shortly before the fiscal year 1990 Administration budget was released, a fact sheet was sent to my office from the Assistant Secretary for Government Affairs at DOT stating: "If we were to make full use of two years of future income, as the law provides, obligation levels could be raised by about 35 percent above this year's level for

about three years. That would reduce the cash balance by about $6 billion by the end of 1993." The fact sheet goes on to explain that we must keep obligation levels low because of overall deficit targets.

Well, I don't buy that argument. The highway user paid a gas tax to improve the roads he drives on. We promised that the money he paid would be used for one purpose, and one purpose only.

Today we are holding back highway spending in order to make up for problems in the rest of the budget. Essentially, we are balancing the budget on the backs of the highway users. We are masking overspending in other programs funded by the general fund by making the highway user foot the bill.

I know that money is being credited to the highway account for future use, but when will that future come? When we have a surplus in budget? That won't happen in your lifetime or mine.

Congress has broken faith with those who have willingly contributed to the highway and aviation accounts and expect highway and aviation improvements. Congress has abrogated its fiduciary responsibility to the taxpayer, and it is time to make that undeniably clear. And it is time to correct the situation.

The Aviation Trust Fund is suffering the same fate as the Highway Trust Fund. The details are different, but the end result is the same: Capital spending is being held artificially low in order to reduce overall outlays from the unified budget, and thus reduce the deficit.

This budget game occurs despite the fact that the cash balance in the aviation account is currently $14 billion and growing. Aviation users paid money into an account that the Congress intended to be primarily a capital account. I anticipate testimony that trust fund expenditures were held down due to technical delays in the facilities and equipment program, but I am sure that the aviation industry representatives here today will testify that the AIP grants and other capital expenditure programs could have absorbed this balance nevertheless.

Recently the Administration proposed a very ambitious aviation program, one that on the whole I very much support and look forward to implementing. However, the plan was prefaced by an increased user fee.

I have difficulty supporting this new fee, at least until we have spent what has already been collected. My fear is that if we approve a new tax in anticipation of greatly increased spending, sometime in October when the Appropriations Committee backs the rest of Congress into a corner and says we have to meet certain spending targets and the only way we can do that is through a cut in the proposed aviation spending, those of us who care about aviation and who have paid for the improvements and been guaranteed these improvements will lose out yet again.

It seems to me that everyone is in agreement on the critical infrastructure needs we are facing. The users are willing to pay their fair share and those dedicated taxes should be spent on the promised improvements. So how do we do that trick? Each year when push comes to shove and the deficit figures are calculated, a determination is made that we just can't afford a higher level of transportation spending, despite the promises to the taxpayer.

Taking the trust funds out of the unified budget, so that the dedicated receipts and expenditures no longer are included when figuring the budget deficit, would remove the incentive to keep transportation spending lower than the transportation taxes can support.

Year after year we continue to break faith with the highway and airway user by not using the taxes collected to improve this system; there must be a way out of this vicious circle, and off-budget status appears to offer that hope. At least removing the trust funds from the unified budget will remove the overwhelming temptation to keep spending low in an endless game of smoke and mirrors and budgetary manipulation.

We have broken faith with a traveling public that has been paying taxes confident of the government's commitment, a commitment which has been broken.

I have been looking forward to this hearing for a long time, and I anticipate some lively debate and discussion. It is time to put to rest the myths that taking funds off budget will increase the deficit by $25 billion, that interest on the funds does not count because it certainly does, and that we are being fair and honest with the millions of taxpayers who contribute to the trust funds in anticipation of improved highway and aviation programs.

I am already familiar with many of the arguments we will hear today, but I will keep bringing the argument back to the bottom line: If the program is working as it was intended, why do the balances in the trust funds continue to grow larger each year, and when does it stop?

I look forward to the testimony of our witnesses, and I thank the Chairman for his attention to this very important issue.

[The statement of Mr. Anderson follows:]

SUBCOMMITTEE ON INVESTIGATIONS AND OVERSIGHT
COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION

OPENING STATEMENT

CHAIRMAN GLENN M. ANDERSON

May 8, 1990

HEARING ON
CURRENT STATUS OF
AVIATION AND HIGHWAY TRUST FUNDS

- -

Today, the Subcommittee on Investigations and Oversight will hear testimony concerning the status of the Highway and Aviation Trust Funds.

This Committee has traditionally been a leader in providing for the transportation needs of this nation. The Highway and Aviation Trust Funds help serve as the foundation for our national transportation programs.

In 1956, the Public Works Committee and Congress initiated perhaps the single most important transportation, safety, and economic development program in the history of the nation, the interstate highway system. In order to fund such a massive undertaking, Congress also passed legislation to create the Highway Trust Fund.

Thus started the commitment we made to the American people; in return for additional tax receipts, we would provide a transportation system second to none. Over 30 years later, I

believe we have gone a long way toward fulfilling our promise to the American people. However, we must never forget the commitment we made to the American people over thirty years ago. They deserve no less.

Today we will examine why the Highway Trust Fund is accumulating billions of dollars and why we are not spending that money on this nation's transportation needs. There is a public perception that the growing trust fund balances may be the result of deliberate underspending driven by budgetary demands, and that the trust fund balances help mask the size of the federal deficit, and consequently help meet deficit reduction targets. This perception is further reinforced by Congressional Budget Office estimates that indicate further growth of these balances in the future.

We must not lose the confidence of the American people. These dedicated tax receipts that help fund the Highway Trust Fund must be spent to build and improve our roads, and to provide safe and efficient mass transportation systems, so that this nation can continue to compete in the global marketplace.

For over two decades in Congress I have championed the cause for adding to and improving this nation's infrastructure system, of which transportation is so vital to the American people's quality of life. This quality of life should not be held hostage to budget decisions that ignore a $10.6 billion balance in the Highway Trust Fund's highway account and $6.6 billion in the mass transit account.

While our Committee cannot trace its involvement in aviation and the Aviation Trust Fund as far back as we can the Highway

Program and Highway Trust Fund, our commitment to the American public concerning our national aviation system is just as strong. The Aviation Trust Fund was created by Congress in 1970 to provide an additional funding source for the ever-increasing capital program needs of our national aviation system. Capital spending is needed now more than ever, as our deregulated aviation system continues its startling growth.

Last year, over 450 million passengers used our national aviation system. Unfortunately, as passenger use has increased, so have delays. Flight delays increased 17 percent in 1989, as compared to 1988, largely because of the inability of our air traffic control system to meet increased demand.

Unquestionably, our system is safe; however, that does not mean it cannot be improved upon. Those improvements should not be deferred when there is currently an unobligated surplus in the Aviation Trust Fund of $7 billion.

We need to determine whether there are any justifiable reasons, based on this nation's vital transportation needs, for not spending the cash balances accumulating in the trust funds. In the past, this Committee has strongly supported removing the trust funds from the unified federal budget. One of the important issues we will examine today is whether taking the trust funds off budget will help release the monies being accumulated in the funds.

The many issues we will touch upon today must be fully addressed as we continue the debate over how best to meet the ever-increasing transportation needs of this nation.

I would like to thank the representatives from the Department of Transportation and the General Accounting Office, as well as our panelists from concerned transportation associations and groups for appearing today.

Mr. ANDERSON. Mr. Mineta.

Mr. MINETA. Thank you very much, Mr. Chairman.

I want to commend you for scheduling these hearings and your effort to focus attention on the growing balance in the transportation trust funds.

As you know, Mr. Chairman, I have joined with you and our great Republican Ranking Minority Member, Mr. Hammerschmidt, on a number of occasions to speak on this issue.

I know I don't have to remind my distinguished colleagues of our unmet transportation needs—perhaps as high as $3 trillion in the next 20 years. Yet, in the face of these needs, our efforts to fully spend the user fees collected for capital improvements to our highway mass transit and aviation systems have not been totally successful. For fiscal year 1991, however, some of our efforts may be paying off, at least as far as the House passed version of the budget resolution is concerned.

Now, whether the House numbers hold remains to be seen. Unfortunately, I am not optimistic, especially in view of the apparent economic slowdown now and overly optimistic budget assumptions from the Office of Management and Budget.

For years the Administration has sought to hold spending from the transportation trust funds below authorized levels. Unfortunately, for the most part, Congress has also yielded to the Administration's request and the mechanisms of the congressional budget process and Gramm-Rudman-Hollings have worked in tandem to ensure that outcome.

Somewhere in this process an important point has been missed. However, highway and aviation bills set specific tax levels designed to support the authorized amounts suspending for highway mass transit, airports and improvements.

For the Highway Trust Fund, our enactment contained an explicit condition to keep the fund from running a deficit. Known as the Byrd amendment, this section ratchets down spending for the Highway Trust Fund for improvements in the event revenue does not keep pace with expenditure.

This year, not satisfied with the $7 billion surplus built up in the Aviation Trust Fund, the administration wants to raise the airline passenger ticket tax from 8 to 10 percent. They make this proposal without so much as offering a guarantee that we will ever spend the billions we have already collected from users of the aviation system.

My response to this proposal to raise aviation taxes or to any other which would increase the Federal gas tax is simply, no, not until we start spending the surpluses in the Highway and Aviation Trust Funds.

It is simply a matter of truth and fair play. When the American people pay taxes or, if you will, user fees, they do not expect that money to sit for years in OMB's equivalent of a Swiss bank account.

As far as I am concerned, if we are not going to spend this money the way the American people were told the money would be spent, as pointed out by our fine colleague Mr. McEwen from Ohio, for capital improvements to our highways, mass transit systems, airports and airways, then we should cut the taxes. In fact, that

was the very provision that was contained in the 1987 Airport and Airways Reauthorization Act that I put in.

Not surprisingly, the very first time the so-called tax trigger would have taken effect last year, aviation taxes were allowed to stay at their normal rate because of the looming deficit rather than being reduced to reflect the fact that they were not being spent.

Mr. Chairman, the American people are demanding truth and honesty when it comes to the Federal budget in how we spend the monies entrusted to the Federal Government. I believe we should spend every dime in our Aviation and Highway Trust Funds to improve our transportation systems.

I hope that these hearings will serve to move us closer towards that objective.

Thank you very much, Mr. Chairman.

Mr. ANDERSON. Mr. Upton?

Mr. UPTON. Thank you, Mr. Chairman.

I would like to begin by commending you for convening this hearing to throw some light onto the Highway and Aviation Trust Funds.

Like most people in America, I support the concept of user fees and dedicated trust funds as long as they are used exclusively for the purpose for which they were collected.

Furthermore, I believe user fees should be used to supplement existing spending from the Treasury. They should not be used to offset current spending from general revenues.

Today, while current spending in the highway program matches money flowing into the trust fund, there remains an unspent balance that was built up in the 1970s. This surplus has been diverted for several years to other government operations in order to mask the true size of the Federal operating deficit. By diverting these funds, we have undermined the integrity of the whole dedicated trust fund system.

In coming years it will undoubtedly be more difficult to convince the American public that new user fees or dedicated taxes will be spent on the purpose for which they are collected or that they won't be used to offset current funding.

And this, Mr. Chairman, is the real tragedy of the Highway and Aviation Trust Fund. Not just that we have failed to give adequate support to these important programs, but that we have undermined the confidence of Americans in our ability to spend taxpayer dollars fairly. It is very appropriate for this committee to work to ensure that this does not occur again.

Thank you.

Mr. ANDERSON. Mr. Bosco.

Mr. BOSCO. I have no remarks.

Mr. ANDERSON. No remarks.

Mr. Inhofe.

Mr. INHOFE. Thank you, Mr. Chairman. I won't be redundant of what others have already said.

I think we all know the history of this dating back to the Great Society days when we knew we were going to be spending more money and wanted to find a new kind of smoke and a new kind of mirror to masquerade this deficit that we have.

I have had occasion to serve in different capacities and went through this same thing as a mayor of a major city and we were successful in getting it off.

In 1987 we took the bill to take the trust fund off budget to the Floor. We only lost it by five votes. It is something that is very realistic.

I have just last week introduced a bill zeroing in on the Airway Trust Fund as opposed to any other trust fund, to take it off budget. I think that perhaps we ought to be able to change at least three votes and get this thing passed this year.

I think it is more honesty to government. I think many of us on the Republican side oppose any of these tax increases that have been discussed until such time as we can have a good, honest system and have the trust funds off budget.

I applaud you for having these hearings and look forward to doing what is necessary to changing those last three modes.

Mr. ANDERSON. Mr. Packard.

Mr. PACKARD. Thank you, Mr. Chairman. I appreciate the opportunity to sit in on the hearing today, even though I am no longer a Member of this subcommittee. I certainly am very, very interested in the trust fund issue, and appreciate you and the Members of this subcommittee holding the hearing.

It is time that we do become honest with the public on this subject. We have for a long time been abusing the trust funds, and our projects have suffered severely because of it.

It is time that we bring the issue out in the open. It is time that we level with the highway and aviation users. Some $25 billion raised by user fees sit in the trust funds. These funds are committed to be used only for highway and aviation purposes.

The Federal Government is bound by law to spend these monies only for highway and aviation projects. However, we know that that is simply not the way it is working out.

The clever activities of the Budget and Appropriations Committees have made it possible for them to spend down these funds for other purposes and, thus, in my judgment, and I think the judgment of this committee, jeopardize them for being available when they are needed for appropriate projects.

The Budget and Appropriations Committees have seen fit to impose ceilings, that is spending limits, on the authorized levels of spending as determined by this committee. Now, this means for states like my own State of California, we re-allocated lump sums of money in the form of contract authority each year. Yet the states are prohibited from spending or incurring obligations against a certain portion of it.

California, for example, in fiscal year 1990 through the formula and the minimum allocation provisions, was allocated $1.8 billion. Of that amount, some $800 million cannot be spent by the State of California or have obligations incurred against it because of the actions taken by the Budget and Appropriations Committees. That figure is to be almost half of my state's allocation.

Because of the severe limits of spending of the Federal dollars, the State of California will be asked—they are asking their citizens this year to approve a significant gasoline tax increase simply to make up the difference of money that has been allocated to them

from the Federal trust funds, but cannot be spent because of these obligations ceilings.

To me, that is unconscionable that we allow the trust funds to be obligated, or to be spent in other areas that they are not earmarked for and do not have them, therefore, to spend in the areas that they are allocated for.

But then to impose upon states by giving them, or allocating them their due share only to then tell them that they can only spend half of it, that is simply reaching a point where our states cannot fulfill their obligations to their citizens in terms of building roads and highways and providing air services.

I certainly commend you, Mr. Chairman, and the Ranking Member for your outstanding leadership, for your work in this area, and hope the subcommittee will be able to influence the full committee in making the appropriate actions and taking them to the Floor of the House.

Thank you very much.

Mr. ANDERSON. Ms. Molinari.

Ms. MOLINARI. I have no statement, Mr. Chairman. Thank you.

Mr. MCEWEN. I would like to ask that the statement of John Paul Hammerschmidt be inserted into the record.

Mr. ANDERSON. No objection.

[The statement of Mr. Hammerschmidt follows:]

STATEMENT OF THE HONORABLE JOHN PAUL HAMMERSCHMIDT

Thank you, Mr. Chairman.

Mr. Chairman, I am pleased to join with you and the subcommittee's Ranking Republican, Bob McEwen, as the Subcommittee on Investigations and Oversight undertakes an in-depth look at the operations of the Highway and Aviation Trust Funds.

I particularly want to commend the gentleman from Ohio, Mr. McEwen, for his long-standing interest in trust fund operations and the need to increase trust fund outlays to support our growing transportation needs. It was his suggestion, I might note, that led to this important hearing—an effort that dovetails quite neatly with the full committee's agenda of infrastructure-related events throughout this year.

Mr. Chairman, as you well know, I have been—and continue to be—a strong supporter of taking the trust funds off-budget. In my view this is the only way that we will be able to spend down the substantial cash balances that have built up in these trust funds.

For example, the highway account of the Highway Trust Fund has a cash balance of $10.5 billion. In order to spend down this unnecessarily high balance, I would like to see an obligation ceiling of at least $15 billion this year.

There is no doubt that the Highway Trust Fund can support this level of funding. However, it is very unlikely that we will be able to achieve a $15 billion level, as justified as it might be. In fact, the House-passed budget resolution for fiscal year 1991 assumes an obligation ceiling of just over $13 billion.

We will not be able to spend at the levels the trust fund can support because of the budgetary pressures created by the Federal deficit. Unfortunately, the congressional budget process does not treat these trust fund programs any differently than it treats programs funded from the deficit ridden general fund. It is for this reason that I have concluded that the only effective solution is to take the trust funds off-budget. To not do so is to break faith with the American people who have paid into these trust funds with the understanding that their payments will be used to make capital improvements to our highway, mass transit, and aviation systems.

Today's hearing, Mr. Chairman, provides the opportunity, through the testimony of our distinguished witnesses, to spread upon the record the history of trust fund operations and examine their similarities and differences. In that fashion, the subcommittee's work will contribute to a greater overall understanding of the complex issues associated with the arguments over the appropriate level of trust fund spending. Again, I commend you, Mr. Chairman, and Mr. McEwen for your efforts in conducing this hearing.

Thank you, Mr. Chairman.

Mr. ANDERSON. Our first witnesses today, the General Accounting Office, Mr. John Hill, Associate Director for Transportation Issues, United States General Accounting Office; Ms. Jackie Williams-Bridgers, Assistant Director; Mr. Frank Mulvey, Assistant Director; Mr. Allen Li, Assistant Director; and Ms. Yvonne Pufahl, Senior Evaluation, Transportation Issues.

[Witnesses sworn.]

Mr. ANDERSON. Mr. Hill, you are the first one on my list.

TESTIMONY OF JOHN HILL, ASSOCIATE DIRECTOR FOR TRANSPORTATION ISSUES, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY JACKIE WILLIAMS-BRIDGERS, ASSISTANT DIRECTOR; FRANK MULVEY, ASSISTANT DIRECTOR; ALLEN LI, ASSISTANT DIRECTOR; AND YVONNE PUFAHL, SENIOR EVALUATOR, TRANSPORTATION ISSUES

Mr. HILL. Mr. Chairman and Members of the subcommittee, I am pleased to have this opportunity to testify on the operations and outlook of the highway and airport and airways trust funds.

As your committee examines how best to use the revenues credited to the trust funds, items warranting attention include unexpended balances as well as trust fund revenues that could be made available to meet our burgeoning surface and air transportation needs.

As you know, critical needs confront the nation's highway and bridge network. Yet, a $10.6 billion balance exists in the highway account of the Highway Trust Fund. The primary reason is that limitations are placed on the amount of funds states are allowed to obligate. In addition, states have not used an estimated $1 billion in the trust fund revenues available to be obligated.

We believe that a one-time increase in authorizations of $3.4 billion is possible while still retaining a safety cushion of $3 billion in the fund—the maximum Federal transportation officials believe is required to provide for unforeseen disruptions to highway taxes or inaccurate revenue projections.

Finally, to prevent future build-ups in the trust fund balance, obligation ceilings should more closely approximate expected income—revenues and interest—to the trust fund.

The nation's aviation needs are similarly critical. The administration has proposed raising user fees to fund future FAA equipment and operations costs. However, air traffic control modernization requirements, by themselves, do not necessitate an increase in user fees.

In the near term the fund can accommodate a greater share of the agency's operations expenses without increasing fees, albeit not at the spending level proposed by FAA. An increase in user fees will be needed in the fiscal year 1994 time frame to support the agency's proposed spending plans for equipment and operations.

My testimony today will focus on the operations of each of the trust funds, including yearly revenue and expenditure streams; reasons for the build-ups in the two funds' balances; and our observations on the process for drawing down the balances.

Unfortunately, the severity of the general fund deficit has made the concept underlying trust funds—that revenues be spent for

their intended purpose—quite different in reality, because various trust fund balances are used to mask the deficit.

In the current budget environment, the reality is that any accelerated drawdown of the trust fund balances can be accomplished only by increasing the deficit or at the expense of other Federal programs.

In the first 12 years of its existence, the highway trust fund balance remained at $1 billion or less. After a rapid growth in the 1970s, the balance peaked at $12.6 billion in 1979. Through fiscal year 1989, the trust fund has accumulated revenues and interest totaling $219.6 billion and has made available $209 billion to the states. The current trust fund balance is $10.6 billion, with projections estimating a 1991 trust fund balance of $11.6 billion.

The effect of trust fund revenues and expenditures on the trust fund balance is illustrated in our next chart. The dashed line represents income to the trust fund. From 1983 to 1989 income to the trust fund has generally increased. The heavy line indicates expenditures from the fund which were at times greater than, equal to, and less than income. The third line represents the trust fund balance. The trust fund balance represents the excess of trust fund income over expenditures.

Since the beginning of the trust fund in 1956, the interest earned has totaled $14.7 billion through 1989. In recent years, interest earned has ranged from $800 million to $1.1 billion per year. We see no distinction in revenues credited from user receipts and revenues credited as interest income in terms of the amounts to be made available from trust fund balances.

The Highway Trust Fund balance exists, in large part, because of funds that are not obligated for highway projects. These unobligated funds occur for several reasons.

A primary reason accounting for the Highway Trust Fund balance of $10.6 is congressionally established obligation ceilings, which constrain the Federal funds available for states to spend on highway projects. As indicated in our next chart, this accounted for approximately $8 billion of the $9 billion in unobligated highway funds for fiscal year 1989.

Another explanation for the trust fund balance is that states did not obligate approximately $1 billion in funds they had accumulated that were exempt from obligation ceilings.

The authorization of Federal-aid highway funds is not a guarantee that those funds will be available for states to use in a given year. In the late 1960s, the Administration instituted impoundments, which temporarily forced states to delay obligations. About a decade later, these impoundments were replaced by congressionally set obligation ceilings. The effect was the same—both restricted states from obligating the total amount of funds authorized.

For instance, in 1983 the obligation ceiling, set at $12.4 billion, permitted states to spend close to the amount originally authorized by Congress. In 1989 the obligation ceiling was set at approximately $2 billion below the original authorization, according to DOT records.

To exacerbate the situation, the funds that are restricted from obligation in one year carry over to the next year. Although these unobligated funds could be made available in addition to new au-

thorizations in the next year, newly imposed obligation ceilings restrict states from spending these funds.

Our next chart shows the result is that the margin between funds which states may obligate as defined by the ceilings, and the funds which could be made available from state spending, continues to widen.

The states' annual request for additional obligation authority and states' use of advanced construction procedures which enable them to start projects without obligating Federal funds indicates their ability to provide the matching funds needed to utilize additional obligation authority. A redistribution of obligation authority occurs annually after August, at which time obligation authority released by some states is given to states requesting additional authority.

For fiscal years 1987 through 1989, states requested between $2.4 billion and $2.8 billion in additional obligation authority, although approximately $800 million was actually available for redistribution. Since 1987, the advanced construction balance ranged between $2 billion and $2.6 billion.

The Congress also authorizes highway funds which it exempts from the obligation ceilings. When the Congress exempts programs from the obligation ceilings, it permits states to spend 100 percent of the funds authorized for that program. Exempt funds represent a small portion of the entire highway program. For instance, since 1983 the amount of funds not subject to obligation ceilings has ranged annually from approximately $700 million to $2.2 billion. The Congress may designate any number of programs as exempt, and may change the categories from year to year.

The most significant exemptions from obligation ceilings, in dollar terms, are the minimum allocation program and demonstration projects. The minimum allocation program guarantees that states receive back at least 85 percent of their revenue contributions to the trust fund.

In fiscal year 1990, 19 states received minimum allocation funds. Minimum allocation funds account for approximately 67 percent of the exempt funds, and demonstration projects account for 31 percent. The remaining 2 percent is comprised of a variety of small programs.

Our next chart shows that although states are free to use all of these funds, the unused amount has grown from $0.2 billion in fiscal year 1983 to the fiscal year 1989 level of approximately $1 billion. The bulk of this $1 billion is composed of minimum allocation funds, which, according to state transportation officials, are held by states as protection against an uneven flow of Federal funds.

Saving these funds is particularly attractive to states because minimum allocation funds may be used in a variety of program areas, unlike other highway funds, which are generally restricted to use within a specific road system.

A common belief is that the trust fund balance represents a surplus. This view, however, is not accurate since the balance plus projected future revenues will be needed to cover commitments.

For instance, the fiscal year 1989 trust fund balance of $10.6 billion is needed to cover commitments (unpaid authorizations), but it

is not sufficient to cover all outstanding amounts that were authorized through 1989. The authorized amounts outstanding, including those constrained from state spending through obligation ceilings, totaled about $31.6 billion in fiscal year 1989. Consequently, an apparent shortfall of $21 billion exists.

This situation, however, is permitted because when the Congress established the trust fund, it also established a safety mechanism to ensure that sufficient funds would be available to liquidate commitments at the end of each fiscal year. As revised by the Byrd amendment, it now permits the total projected commitments at the end of the fiscal year to exceed the trust fund balance so long as income projected for the following two years is sufficient to cover the difference.

In a May 1989 report to the Senate Appropriations Committee, we pointed out that the trust fund could support a higher level of program activity because future total revenues over the fund's authorized life are expected to exceed the level of future authorized commitments by about $7.4 billion.

Federal transportation officials, however, believe that a safety cushion of between $1 billion and $3 billion would be necessary to guard against unforeseen disruptions to highway tax revenues or inaccurate revenue projections.

Further, since the time of our review, $1 billion in emergency relief funds was authorized because of the highway and bridge damage caused by the October 1989 earthquake in California. Assuming a conservative safety cushion of $3 billion and taking into account the additional $1 billion authorized, the trust fund could support $3.4 billion in authorizations.

Now I would like to address the Aviation Trust Fund. The Airport and Airway Trust Fund, also known as the Aviation Trust Fund, was established in 1970. This trust fund is financed by excise taxes levied on air passengers, air cargo, and general aviation fuel. The fund supports all airport grants and capital improvements, such as new radars and traffic control towers.

Within certain limits set by the Congress, some of the remaining money can be used to cover the FAA's operations expenses. That portion of FAA's operations expenses not paid from trust fund revenues must be financed from the general funds of the U.S. Treasury. The income generated by the trust fund—revenues and interest—is in our next chart.

Generally, receipts have exceeded trust fund spending. The current $14.6 billion balance exceeds outstanding commitments by more than $7.6 billion and, in that sense, the fund has a surplus. This surplus traces to congressional restrictions on spending for FAA operational expenses and to slower spending on air traffic control modernization than authorized by the Congress because of delays in project development.

Trust fund expenditures for operations have been restricted since 1971. Although the Congress has allowed FAA to spend aviation user fees to cover operations since 1976, there are limits on how much the trust fund can contribute for operations.

The overall cap on trust fund spending for operations is much less than the burden created by the system's users. The maximum

allowable amount that may be spent for operations is further reduced if spending targets for capital programs are not met.

If it were not for these limitations, there would be no surplus. In fact, if the users paid for all the costs occasioned by their use, then the trust fund would be running a deficit of more than $1 billion annually.

In addition to the overall cap on spending for FAA's operations, there is also a penalty provision that reduces the maximum amount that can be spent for operations in proportion to any shortfall in spending on capital programs. If not for this penalty clause, the trust fund, rather than general fund revenues, would have been used to fund $6.6 billion for FAA operations between 1983 and 1990.

These unspent funds plus their accrued interest—$2.1 billion—equal $8.7 billion. This exceeds the estimated fiscal year surplus of $7.6 billion surplus by over $1 billion.

While the spending cap limits trust fund outlays for FAA's operations costs, the trigger tax provision reduces trust fund taxes, and therefore income to the fund, by 50 percent, if capital spending fails to meet congressional targets. The Congress chose to postpone activating the trigger tax until next year.

Finally, the trust fund balance is large because FAA has experienced delays in modernizing the nation's air traffic control system. Initiated in 1981, FAA's National Airspace System Plan was designed to replace computer, radar, and communication equipment.

Our prior work has found that the delays have resulted primarily from unrealistic initial schedules and problems in developing new technologies. System development delays are related to FAA's underestimating the complexity of highly automated systems; the time needed to develop system software; and the interdependencies among systems. In addition, contractors have been unable to perform on schedule.

Modernization problems have led to the accumulation of unspent balances in the trust fund. In addition, initial cost estimates are rising. This will significantly impact future trust fund expenditures.

FAA now projects that the NAS Plan will cost $4 billion more than the original $12 billion estimated. Furthermore, because other projects are being added, total air traffic control modernization costs will be even greater. Indeed, if the costs of all associated projects to modernize the system are included, the total will be about $27 billion through the year 2000.

FAA now acknowledges that modernization will need continuous funding, and not end in 1991 as its preliminary cost-benefit analysis for the NAS Plan indicated.

This year the Administration is proposing that the trust fund be used to cover 85 percent of FAA's total budget beginning with fiscal year 1991, thereby eliminating the general fund subsidy. In fiscal year 1990, the trust fund is expected to pay for only about 58 percent of FAA expenditures. To meet this expanded use of the trust fund and to pay for modernization, the administration has proposed raising passenger ticket taxes, which form a large bulk of such fees.

Increased modernization costs and expanded use of the trust fund to pay for operations expenses—albeit not at the level desired by the Administration—do not necessarily require an immediate increase in user fees.

Our next chart illustrates how current trust fund user fee revenues combined with existing uncommitted balances could be used to cover 75 percent of the entire FAA budget. Fees must be increased only if the fund is relied on to cover 85 percent of the FAA budget. Indeed, the surplus would be depleted by fiscal year 1994 if fees are not increased and proposed expenditures are maintained.

On the other hand, if the trust fund's share of FAA's expenses is maintained at the current level of about 58 percent and if user fees continue at the existing levels, the surplus could rise to about $11 billion in fiscal year 1995.

This concludes my testimony. I will be glad to answer any questions at this time.

Mr. ANDERSON. Thank you, Mr. Hill.

What are the current unobligated balances of the Aviation and Highway Trust Funds?

Mr. HILL. The current unexpended balance carried in the Aviation Trust Fund, the unexpended balance at the end of fiscal year 1990 will be approximately $14.6 billion. The surplus would be about $7.6 billion because of commitments on contract authority which is applied against those funds. That is in the Aviation Trust Fund.

Mr. ANDERSON. So that the record is clear, how much more spending can the Highway Trust Fund support?

Mr. HILL. The Highway Trust Fund can support additional authorizations, that is above the existing ceilings, of $3.4 billion. It can also support additional——

Mr. ANDERSON. Only 3.4 for the highway?

Mr. HILL. Three point four billion dollars is really additional authorizations. Then assuming that you are allowed to spend up to the authorization level, that would be $3.4 billion.

Mr. ANDERSON. In other words, it is $9 billion now, but you can only spend $3.4 billion of it?

Mr. HILL. No. The $3.4 billion comes from the fact that the revenues that the trust funds now expect are $7.4 billion greater than what was originally estimated.

We subtract from that figure $3 billion to really guard against any shortfalls in revenue in the trust fund, projected revenue, and also an additional $1 billion, which is the amount which is set aside for the earthquake in California.

If the obligation ceilings were removed, another $8 billion could be spent by the States in addition to the $3.4 billion of new authorizations.

Mr. ANDERSON. How much more spending can the Aviation Trust Fund do?

Mr. HILL. The Aviation Trust Fund could support spending up to the $7.6 billion level. In fact, one of the charts that we had up there showed that you could actually support spending at the current FAA operations level. That is including operations expenses from the FAA in the trust fund through the year 1994 without

having an increase in the amount of user taxes that would be needed.

Mr. ANDERSON. One of your charts depicts an unexpended and uncommitted balance, and characterizes the latter as the surplus. Will you please elaborate on the difference between these two balances?

Mr. HILL. Okay. The unexpended balance carried forward is the balance of the fund at the end of the fiscal year. If outstanding commitments, that is those that are appropriated but not expended, are those commitments to future liquidating cash appropriation, to liquidate obligations and the unobligated balance in the contract authority, if those are applied against this unexpended balance and the resulting amount is the uncommitted balance or the surplus, and that surplus would be $7.9 billion.

Mr. ANDERSON. Mr. McEwen?

Mr. MCEWEN. Thank you, Mr. Chairman.

Thank you, Mr. Hill, for your testimony. If I could follow up on the question from the Chairman. You say expected revenues over the next year would be $7.4 billion more than is authorized presently?

Mr. HILL. Expected revenues through the end of the authorization period.

Mr. MCEWEN. We could increase expenditures by that much at least?

Mr. HILL. At least. However, the Department of Transportation indicates that they would like to keep a cushion of $1 to $3 billion.

Mr. MCEWEN. No, they don't. They would like to keep a cushion of about $20 billion.

Is there any way that you can increase expenditures and draw down this money in its present form without considerably adding to the deficit?

In other words, our suggestion of taking it off budget, is there any other alternative whereby we could accomplish the same—we could get to that money without having to cut spending someplace else?

Mr. HILL. Well, one of the things that I think has been brought up by the Administration that we have really looked at in putting the testimony together is the impact of accumulated interest in the trust fund on the Federal deficit.

The problem at least from a budget standpoint isn't so much those revenues credited to the trust fund. If they are credited to the trust fund, they go out of the trust fund. There is no impact on the deficit except if there is a timing difference.

The problem comes in when you have expenditures going out of the trust fund which are not reflected in amounts that are received from outside of the Federal Government. That would be the interest amount.

I am not sure that there is any correlation, but certainly the balances which exist in the trust funds currently approximate the accumulated interest on those funds over the life of the funds, at least in the highway account. To draw down on any of those balances, you would have an impact on the deficit.

Mr. MCEWEN. There is no other alternative than to take it off budget? We have all the safety mechanisms in there already. There is no way you can overspend. All those securities are there.

What we need to do is take it out from the control of the Appropriations Committee that feels motivated to meet Gramm-Rudman targets periodically by packing up money in those funds.

Mr. HILL. Even if you take the trust funds off budget, the amounts that are remaining in the trust funds currently as balances have to be funded in some way.

In funding those balances that exist currently, it would affect the general fund deficit because the monies that are represented in the trust funds currently have been spent. I mean they don't exist anywhere.

Mr. MINETA. Would the gentleman yield on that point?

Isn't the purpose that we not just take the trust funds off budget, but we also have to make them beyond the reach of the Gramm-Rudman-Hollings bill?

Mr. HILL. GAO's official position is that we would not support taking the trust funds off budget.

Mr. MINETA. Regardless of what your position may be, if we simply took the trust funds off budget, that doesn't do it? What we also have to do is go that one further step. That is to make it beyond the reach of the Gramm-Rudman-Hollings provisions?

Mr. HILL. That is true. Simply taking the trust funds off budget would not necessarily impact or take away from the deficit.

Mr. BORSKI. Mr. Hill, on page 6 of your testimony, you talk about the interest the Highway Trust Fund is earning. You see no distinction in revenues credited from user receipts and revenues credited as interest income in terms of the amounts to be made available from trust fund balances. Is it treated differently?

Mr. HILL. They are both credited to the account and become part of the trust fund balance. But because of the size of the remaining balance in the trust fund, it appears that the interest amount which has accumulated in the trust fund sets a limit at which they will draw the trust funds down. They will not draw the trust funds down below because the amount that is in the trust fund currently approximates the accumulated interest in the account.

Mr. BORSKI. You say we have $14.7 billion interest?

Mr. HILL. Through 1989.

Mr. BORSKI. Is that money that has not been spent?

Mr. HILL. It is not money that is separated out per se. There is no distinction between the interest income that has been credited to the fund and the other revenue from outside sources. But there is a distinction from the standpoint of how each one would impact the deficit. But there is no distinction with respect to how it is credited to the fund.

Mr. BORSKI. To mask the deficit then, we are doing what with the interest?

Mr. HILL. There are really two ways that the deficit could be masked. One is that if you do not spend revenues out of the trust fund at the same rate that the revenues are taken in. The other way is that if interest is not spent out of the trust fund, the deficit would have been higher had that interest been allowed to be spent. So that, in other words, your deficit is actually lower because you

have withheld spending on the trust fund interest which would impact the deficit calculation.

Mr. BORSKI. What is the unobligated balance of the transit account?

Mr. HILL. I have that figure here.

UMTA is expected to obligate all of the $9.7 billion in funds which were authorized to be obligated and to incur expenditures of about $5.7 billion. There is about $4 billion of obligations that are not expected to be funded at the end of this fiscal year 1991. So there would be about $4 billion of obligations that wouldn't be expended.

Mr. BORSKI. Four billion dollars that is sitting in the transit fund that we are not going to spend?

Mr. HILL. These are obligations, yes, that would not be expended by the end of the year 1991.

Mr. BORSKI. We have $4 billion that we are not spending? Is that accurate?

Mr. HILL. Yes, that is accurate.

Mr. BORSKI. In mass transit. If we chose to, we could give the mass transit agencies across the country $4 billion and the fund would be fine?

Mr. HILL. The fund would be fine, but certainly there would be an impact on the budget.

Mr. BORSKI. Solely because of the impact on the budget that the penny that we give to mass transit is not going toward mass transit; it is going toward the Federal budget?

Mr. HILL. We don't know the reason why they are holding the balances. No one has said it is because of the budget. So that we could not really speak to that.

However, certainly there would be an impact on the budget if the amounts are drawn down.

Mr. MINETA. Would my colleague yield?

Isn't that again because of the limitation on the obligations that have been placed on that by the Congress itself?

Mr. HILL. Yes. That is the reason.

Mr. MINETA. So that because of the appropriations process, I think that obligation ceiling is there. Therefore, we can't spend beyond that. That is when you say, we will end up with this $3.8 billion unobligated surplus there in that mass transit account.

Mr. HILL. Also within UMTA they are not authorized to obligate about $3.8 billion as well. That is in addition.

Mr. BORSKI. So you have $7.8 billion that could be used for mass transit that is not being used?

Mr. HILL. That is correct.

Mr. BORSKI. And arguably is being used to mask the deficit for that much money?

Mr. HILL. By holding amounts of money into the trust fund and not spending them as they come into the trust fund, they are, they do affect the budget and they would affect the budget positively. Because if they were spent, they would increase the deficit.

Mr. BORSKI. Thank you, sir.

Mr. ANDERSON. Mr. Packard.

Mr. PACKARD. Mr. Hill, do you believe that the purpose, the fundamental and original purpose, of the trust fund is now being met?

Mr. HILL. The purpose of the trust fund, one of the reasons that the trust fund was established was to provide a steady stream of money to the states, especially in the Highway Trust Fund area. Some of the states, as we have pointed out in the testimony, are in the process of withholding funds to be used at a later time to cushion against interruptions in that steady stream.

If your question is, has all of the money that has been credited to the trust fund been spent, obviously it has not.

Mr. PACKARD. Was there any other purpose, in your judgment—initial purpose—of those trust funds other than to collect money and to use them for highway and aviation improvements?

Mr. HILL. Not that we have seen, no.

Mr. PACKARD. So in essence they are being diverted from those purposes. Are there other trust funds beside aviation and highway trust funds that are being handled by the budget and appropriations process similarly or the same as our highway and aviation trust funds?

Mr. HILL. I don't personally have knowledge of any that have obligation ceilings.

Mr. PACKARD. How are the social security trust funds handled differently than the highway and aviation trust funds?

Mr. HILL. The social security trust funds are on what is considered on-off budget. It is kind of confusing. The social security trust funds balances and the revenues that come into those funds are counted toward meeting the Gramm-Rudman targets.

However, there is no restriction as to the amount that can be spent out of those trust funds. That portion of the trust fund becomes the off-budget part. So it is on-budget for the sake of Gramm-Rudman and off-budget for the sake of expenditures out of the trust funds.

Mr. PACKARD. Are those trust funds, the social security trust funds, however, being diverted away from social security functions and purposes into other budget categories or obligated into other budget categories?

Mr. HILL. As far as being actually obligated into other budget categories, no, they are not. However, the cash that underlies the receipts that come into the trust fund is certainly being used for other purposes because it is a unified budget such that all cash is treated basically as cash when it comes into the funds.

However, the balances and the integrity of the balance still exist within the social security trust fund.

Mr. PACKARD. There is a major difference between the social security trust funds and the trust funds that we are referring to in this hearing. That is that social security trust funds are generally surpluses that are not being called on for social security benefits, correct, whereas it is perceived at least by this committee that there are significant needs out there calling for the highway and aviation trust funds but they are not available, they are not truly part of a surplus.

Mr. HILL. Arguably, the social security trust funds may not indicate a surplus either because of the larger accrued liability that exists for service that may have already been rendered for those people who underlie the social security trust fund benefits.

Although there may not be a commitment against those funds in a budget sense, certainly there is a commitment against the funds from the standpoint of promises made to people in the future for their payment.

Mr. PACKARD. What was the rationale in developing the obligation ceilings and imposing those restrictions on states?

Ms. WILLIAMS-BRIDGERS. The federal highway program was established to allow a continuous flow of funds to the states. So as not to be interrupted by the annual review of the appropriations process, the federal highway program was exempted from the annual appropriations review.

However, in order to align federal highway spending with other overall Federal Government spending, the Highway Trust Fund authorizations were then made subject to annual obligation ceilings over time.

Mr. PACKARD. How long have these been imposed?

Ms. PUFAHL. Before there were obligation ceilings, the Administration took action and constrained spending. So the balance in the highway account of the highway trust fund has been around for a long time. We are going back to the 1960's when we actually see the build-up in the balance.

Mr. MINETA. If my colleague will yield, that is the start of impoundment of funds, right?

Ms. PUFAHL. That is correct.

Mr. MINETA. Because of the impounding of funds the Congress said in 1974 through the Budget and Impoundment Control Act, we don't want that happening and they set up the other system.

Ms. PUFAHL. That is correct. It replaced it.

Mr. MINETA. Thank you. May I ask?

Mr. PACKARD. Please go ahead.

Mr. MINETA. Do those funds that are obligated to the states, do those expire at any point or are those monies there sitting for the states to draw on at some point in the future or do those things lapse to the state and revert back to the unexpended, unobligated balance in the trust fund?

Ms. PUFAHL. They do have varying lives according to the program area. But the dollars operate on a first-in/first-out basis so that you are always using your oldest dollars.

Mr. MINETA. Thank you.

Mr. ANDERSON. Mr. Packard, are you finished?

Mr. PACKARD. Yes, thank you.

Mr. ANDERSON. Mr. Mineta.

Mr. MINETA. The original purpose of these trust funds was really to have a source of capital funding, was it not?

Ms. PUFAHL. That is correct.

Mr. MINETA. When did the whole notion of drawing against those trust funds for operational expenses creep in?

Mr. MULVEY. Well, there was some argument about whether or not the funds should be used for operations expenses back in 1971 when the trust fund was first set up.

Mr. MINETA. That was by the Nixon Administration as it represents to the Aviation Trust Fund, as I recall, as to whether or not the hands-on air traffic control system should not also be funded out of the trust funds.

Mr. MULVEY. That is correct. Congress decided it did not want operating expenses funded by the fund at that time. They were excluded until 1976 when some portion of the trust fund was allowed to go for operations.

Mr. MINETA. Since then haven't we had administrations trying to dip their hands into that cookie jar to take more of the operational expenses out of the trust fund?

Mr. MULVEY. Yes, they have argued about that for quite some time.

Mr. MINETA. That is one; I put the other provision in that says if you are going to take operational expenses out and shortchange the capital improvments funds, you are going to get a penalty clause here. We did that specifically because I did not want the regional director of FAA's automobile being paid for out of the trust fund.

That had nothing to do with the hands-on Air Traffic Control System and those kinds of expenses could come out of the general fund.

What about on the Highway Trust Fund side, operational expenses there? Is there a different definition as to what operational expenses are allowed to be taken from trust fund monies as compared to aviation trust funds?

Ms. PUFAHL. No, the trust fund does not reimburse for operating expenses.

Mr. MINETA. Which fund is this?

Ms. PUFAHL. The Highway Trust Fund.

Mr. MINETA. I thought highway always funded the FHWA staff. I thought the highway administration staff was funded by the Highway Trust Fund.

Ms. PUFAHL. That is not my understanding but I will be glad to check on that.

Mr. MINETA. I want to get this clarified; is not the federal highway administration staff funded by the Highway Trust Fund? I see a lot of people who have been out here who are very familiar with it. Some are shaking their heads up and down and some are shaking their heads from side to side. I would appreciate knowing about this.

On page 16 of your testimony, Mr. Hill, you have a footnote 5 that says, "Furthermore, aviation excise tax revenues of $1.18 billion in fiscal year 1981 and $1.04 billion in fiscal year 1982 were not credited to the trust fund, but remained in the general fund."

Would you remind me about that?

Mr. HILL. One of the reasons we included that is because in our testimony we talk about $6.6 billion in operations for FAA that would have been taken out of the trust fund that were not taken out of the trust fund, that were charged to the operations of the general fund.

We also thought on balance we should indicate that these amounts were set up after the—it was actually before they had gotten around to reauthorizing the trust fund. For those two years the amounts collected in revenues really went into the general fund and were never credited to the trust fund.

Mr. MINETA. Going back to Mr. Borski's question about whether or not there is $7.8 billion in the mass transit account, isn't the problem there that the real unexpended available amount is $3.8

billion? Can we really say $7.8 billion: Isn't $4 billion of it somehow already obligated to the states for prior year obligations?

Mr. HILL. Yes. The $3.8 billion are funds either not authorized or obligated, which is $3.1 billion or are not obligated because of appropriations limitations. That is the $1.7 billion. The additional amounts will not be actually, they will remain in the cash balance, meaning that they have been obligated but the cash will not be expended so therefore there will not be an impact on the deficit until such time as the cash is spent.

Mr. MINETA. If I were to ask you how much would be available for the Highway Trust Fund for future draw down, taking out everything where we might have some kind of obligation because of ceilings and everything else, for just the highway piece of it, how much would that amount be?

Mr. HILL. It would actaully be a total of $6.4 billion. The reason for that is that—and we actually use a smaller figure, $3.4 billion——

Mr. MINETA. $3.4 billion?

Mr. HILL. $3.4 billion and that leaves a $3 billion cushion.

Mr. MINETA. What about the mass transit account?

Mr. HILL. The mass transit account would be the $3.8 billion.

Mr. MINETA. And the Aviation Trust Fund? There you say because of the NAS plan it may all be gone.

Mr. HILL. That is right, but currently there is a surplus that exists.

Mr. LI. Mr. Mineta, there is indeed a $7.6 billion "surplus." Relative to the impact of modernization, we believe that, with this surplus, there is sufficient revenue coming in to cover projected increases in modernization costs.

Mr. MINETA. So even if the estimated $4. something billion goes up to $12, the income stream would still take care of that without raising aviation tax?

Mr. LI. For the next five years, that you are correct. But the issue is that if you compound that particular requirement with an increase in operations, as the Administration proposes at the much higher level, then an increase in user taxes will be necessary.

Mr. MINETA. If we say that 15 percent of the Air Traffic Control System is attributable to military operations; is that correct?

Mr. LI. Yes, sir.

Mr. MINETA. How much for general welfare? Is there another category or is it 85 percent for air traffic control and the 15 percent for the military?

Mr. LI. That is the only differentiation that has been made up to now.

Mr. MINETA. Does that 15 percent come from the general fund to fund that 15 percent?

Mr. MULVEY. That is our understanding. The 15 percent plus part of the operations of FAA is funded by the general fund.

Mr. MINETA. Since the present highway bill started out as the National Defense Highway System, does any of that Highway Trust Fund money go toward the construction of that interstate system come from defense or the general fund sources?

Mr. HILL. Not that I know of.

Ms. PUFAHL. No.

Mr. MINETA. Is there a statute of limitations as to whether or not we can build the Pentagon since having built the highway system since 1955?

Ms. PUFAHL. I think that would be reaching back too far. I would like to help clarify our point that the highway account could support additional spending of the amount that is available—the $10.6 balance—if the obligations ceilings were raised higher. That money could be used by the states. Right now it is constrained from spending. What Mr. Hill was saying earlier about the $6.4 billion, that is additional authorizations that could be made. Also, interjecting if you don't mind, you had asked a question about staffing and whether that was funded from the trust funds. You were correct, 3.75 percent of the highway trust fund money can be used for FHWA or administering expenses.

Mr. MINETA. What is that percentage?

Ms. PUFAHL. Three point three-quarters percent. In actuality they are only using about 1.5 percent.

Mr. MINETA. You just threw me into a tizzy on this thing. Let me go back to the $6.4 billion.

Ms. PUFAHL. Yes.

Mr. MINETA. You used a 10 point something figure there?

Ms. PUFAHL. Right. There is money that has already been authorized that is constrained from spending. You could free up that money and let states spend what has already been authorized. In addition, additional authorizations could be made. The trust fund could support the highway account, a higher level of activity.

Mr. MINETA. In the budget resolution this year, as I recall, the obligation ceilings lifted goes from 12 point some billion dollars up to $14.08, I believe is the figure. Are you counting in that fiscal year 1991 budget resolution as part of that 10.8 or are you talking about prior to, if that were to be executed?

Ms. PUFAHL. I don't know.

Mr. HILL. The $6.4 beyond the limitation.

Ms. WILLIAMS-BRIDGERS. That is right. It is at the end of the reauthorization period.

Mr. MINETA. I see. Okay. That gives me a good point to start from. I am trying to figure out as I build a new reauthorization how much more I can increase it.

Ms. WILLIAMS-BRIDGERS. An additional point, Mr. Mineta, the $3 billion in additional authorizations that we are suggesting could be supported by the states is a one-time authorization. We also believe that in the next reauthorization period, the obligation ceilings can be raised to equal income into the trust fund.

There is no reason to maintain a balance in excess of the safety cushion which DOT estimates should range between $1 to $3 billion. That safety cushion will continue to earn interest so you will always have a safety net. However, the obligations ceilings can be raised above what they are today.

Mr. MINETA. I think the reason the budget resolution has gone as high as it has is because we have kept saying, if you don't increase the obligational ceiling then we will work to take it off budget and make the provisions of the trust fund beyond the reach of the Gramm-Rudman-Hollings.

I think that has made the Budget Committee understand a little more clearly that we intend to do that and that we are serious about that. To the extent that they have raised that ceiling, it is to our advantage. As I said in my statement, I am not that sanguine that it is going to stay that high. I think we ought to keep the pressure on the Budget Committee and the whole appropriations process to take it off budget beyond the reach of the Gramm-Rudman-Hollings.

Thank you very much, Mr. Chairman.

Mr. ANDERSON. Mr. Boehlert.

Mr. BOEHLERT. I have no questions.

Mr. ANDERSON. Mr. Duncan.

Mr. BORSKI. Mr. Hill, is there a trust fund? Is there somewhere with money?

Mr. HILL. Trust fund in the sense—and I spent a lot of time in the private sector in banking before I came to GAO. Trust funds in the government are not the same as trust funds in the private sector. Certainly with trust funds in the private sector there is a lot more control over what is being spent in and out of the trust fund based on the agreement with the party you are in trust with.

Mr. BORSKI. There is actually money in the private sector and there is not money in our trust funds?

Mr. HILL. There is no money that is set aside. The amounts that show up in the trust fund as securities are merely, they are not even paper, they are a book entry. Basically, those securities just represent the amounts that have been credited that they will be paying interest on.

They are not marketable. They are a special issues securities. So no, there is not trust fund per se.

Mr. BORSKI. As we collect money to the gasoline tax, that just goes to general revenues, in and out?

Mr. HILL. That is right.

Mr. BORSKI. Thank you. I have no further questions.

Mr. ANDERSON. Mr. DeFazio.

Mr. DEFAZIO. We keep going back to the deficit calculation. Let me understand, the accrued balance in the trust fund with the exception of the interest which it accumulates on an annual basis does nothing to make the deficit look any smaller or deal with the Gramm-Rudman implications, correct?

Mr. HILL. That is not true. There is a timing difference. If you were to take funds in in one year and not spend the same amount of money in that year, then it will affect the deficit in that one year. It would reduce the deficit because you would receive more in that year.

Mr. DEFAZIO. One is the income and one is accumulated balance. In annual income we have been under spending receipts. That makes the deficit look smaller. The other half is the accumulated unobligated balances in the funds; now as they sit there, those are not per se a deficit reducer with the exception of any interest they might generate. It is counted as income?

Mr. HILL. The interest is not a deficit reducer, either. It only affects the deficit when those monies are actually outlaid. So for them to sit there, at the time they entered the trust fund, they entered into the deficit calculation and at the time they leave the

trust funds, they affect the deficit calculation, with the exception of the interest which only affects the deficit calculation at the time the monies are expended because it is a federal transfer.

Mr. DEFAZIO. So the accumulation of interest in the year in which it is generated does not count one way or the other?

Mr. HILL. That is right.

Mr. DEFAZIO. What I am getting at here is that it seems to me the objective of the Budget Committee and others is that we want to show that our income is going to be higher than our outlays so we get some deficit reduction. Then we end up with the accumulated unobligated balance.

I am trying to look at this current year versus what is accumulated. If we can spend $200 or $300 billion, whatever, for savings and loans and it doesn't count against Gramm-Rudman-Hollings, then why can't we spend unobligated balances and keep it off Gramm-Rudman-Hollings?

We just say for accounting purposes any expenditures of the accumulated unobligated balance doesn't count against Gramm-Rudman-Hollings.

Mr. HILL. The deficit can be defined however Congress wishes.

Mr. DEFAZIO. Okay. I wanted to make sure there was not some defect in my thinking here. I hope the committee can pursue this with the other committees of jurisdiction. It seems to me that if it is a worthy enterprise to spend those 10's, or 100's of billions to take care of past wastrels in the savings and loan industry, it would certainly make sense to use this to take care of the infrastructure needs of the country.

Thank you, Mr. Chairman.

Mr. ANDERSON. Mr. Packard.

Mr. PACKARD. If a state does not spend its allocation within a certain period of time they lose it. Now I understand that it is the oldest dollars that are spent. Is there any state, however, that has forfeited allocation because of the obligation ceilings, any state? California is near that now.

Ms. PUFAHL. I am not aware of any states that have forfeited funds because of the obligation ceilings. One of the things that Mr. Hill did allude to in the testimony was that there was a certain redistribution of funds that occurs annually. There is very little money that is turned back that states cannot use while there is a great demand for these turned back funds from states desiring more funds.

Mr. PACKARD. If I understand correctly, if a state exceeds 50 percent of their—if their ceiling prevents them from spending at least 50 percent of their total allocation, then the oldest money out and the youngest money in would gradually reach a point where you would start losing or forfeiting money after a year or two.

I noticed on figure 4 of your statement, Mr. Hill, it shows the lowest state obligation totals in the last eight years was $13.3 billion. The lowest funds available were $15.8 billion in 1984. That gives a significant cushion so no state will lose. In 1989 we had an obligation ceiling of $12.2 billion but total funds available of $20 billion. If that $20 got up to $25 billion and the obligation ceilings would remain constant as they have in the last eight years essentially, it would be possible or probable that then states would begin

to lose their allocated money because again the oldest out and the youngest in, you would be getting behind and actually jeopardizing funds that normally would be your states.

Mr. HILL. The one factor that has to be considered in the equation is the amount of time it would take for those funds to lapse.

Mr. PACKARD. I think you understand what I mean. We are moving in a direction that would lead us to losing money in states and that would be a tremendous inequity to states, to have the funds withdrawn from the states through normal user fees only to find that they could not, by regulation and by policy at the federal level, recapture even the minimum amount that they are allowed.

Thank you, Mr. Chairman.

[Mr. Hill's prepared statement appears on page 131.]

Mr. ANDERSON. Thank you very much.

Our next witnesses are Mr. Lester Lamm, President of Highway Users Federation; Dr. Richard Mudge, President, Apogee Research Incorporated; Francis B. Francois, Executive Director, American Association of State Highway and Transportation Officials.

TESTIMONY OF LESTER LAMM, PRESIDENT, HIGHWAY USERS FEDERATION; RICHARD MUDGE, PRESIDENT, APOGEE RESEARCH, INC.; AND FRANCIS B. FRANCOIS, EXECUTIVE DIRECTOR, AMERICAN ASSOCIATION OF STATE HIGHWAY AND TRANSPORTATION OFFICIALS

Mr. LAMM. Good morning, Mr. Chairman, and members of the committee. I want to congratulate the committee for holding these hearings.

The Highway Trust Funds are a significant financing mechanism. One of the characteristics of it is that it is very complicated. I began work for the old Bureau of Public Roads in 1955, a year before the Highway Trust Fund was established. For most of that period of time I have worked either in an official capacity or with an interest. I have worried about the Highway Trust Fund and I worry about it now.

The complexity of the Highway Trust Fund process is obvious to everyone. In fact, in our questioning of the previous witnesses—and I must say I have found GAO testimony to be very beneficial. It was excellent testimony, and the questions the committee asked drew out additional features that will be helpful, too. But even with a committee as yourselves, so experienced in administering programs and witnesses representing GAO—which is the fiscal watchdog for the Congress of all Federal programs—there is still some problems with terminology and with an understanding of the process, et cetera.

Mr. Chairman, I have testimony prepared for the record. I believe you have copies. I will leave it for the record and attempt to summarize very quickly this morning, these comments.

In talking to the subcommittee staff, I was asked to provide a little bit of information in my testimony about the actual fiscal mechanics of the Highway Trust Fund, which I have done. Again, I would emphasize that it is a complicated process because, in addition to the authorizing committees, as you have already noted this morning, we involve as well the financing committees of both

Houses—the Budget, Appropriations, and Ways and Means—sometimes at cross purposes.

It seems to me, Mr. Chairman, that in the years we have been operating with the Federal Aid Highway Program, each new highway bill makes the trust fund financing process just a little more complicated. Additional programs are added. More accounts are identified, more controls are established. At this point, the Federal Highway Administration, from a fiscal point of view, provides balances at the end of each month, close to 600 separate fiscal accounts simply by virtue of the fact that the program has gotten so complicated. That, in itself, makes the program almost impossible to administer with a normal staff.

It is our hope that the 1991 legislation, in addition to providing the necessary reauthorizations, would really attempt to try to simplify the fiscal process as well. Yet, I would like to emphasize that from our standpoint and our members, the members of the Highway Users Federation, are normally the people who are paying the taxes into the Highway Trust Fund. We look at the trust fund from the concept of whether the average taxpayers are getting their money's worth.

We believe the principles that underlay the trust fund 25 years ago are still sound and should be continued in 1991. The provision of contract authority to move money more efficiently than the normal appropriated account is very significant. The fact that the fiscal soundness of the trust fund is guaranteed by the effectiveness of the amendment is something we ought to continue.

The user, the beneficiary in the highway programs, are the ones who pay the taxes and that is a major principle that I think should be continued beyond 1991. The fact that the funds in the trust fund are for the most part reserved for programs this committee authorizes, that is a key provision, one which I hope Congress will continue beyond 1991.

The principle includes a process by which the states know in advance how much funding they are going to have for their various categories. Here, Mr. Chairman, I am afraid that because of time constraints, and other problems in recent years it has been an unusual year that the states have really had much advance information about the funding level.

The Federal/State partnership that administers the program is very important, and I hope it is one the committee continues beyond 1991.

The principle of federal aid being focused on specific main traffic roots and programs which advance federal priorities is again very important.

The final principle that I hope will be continued is that the program is a reimbursable program, with the states providing the money to begin with, and then being reimbursed by the Federal Highway Administration. The alternates, such as letter of credit, et cetera, don't appear to have any advantages in the financing process. So I think basically, we have a fairly well understood—even though the mechanics are very arcane—but a process that works well for the highway users of this country and one I hope will continue.

There are problems, however, and this committee is to be commended for having these hearings to focus on the problems. I will mention a couple and then turn to our other witnesses and your questions.

First of all, I believe the entire concept of user financing transportation programs and other public works activities is in real jeopardy right now, because of the fact that we have not been using the revenues on a timely manner in the trust funds we operate right now. As we look at Secretary Skinner's National Transportation Policy that was announced roughly six weeks ago, there is going to be a heavy continuance of principal user financing.

I am afraid that as the trust fund balances are building up in trust fund after trust fund, the good will engendered and the prospect of a program being handled in a trusting manner through this trust fund concept, is in real jeopardy.

I have particular concern about the Administration's complete unwillingness to use interest which is gained into the trust fund and in its calculations for the obligation ceilings every year. To me there is no difference—as the GAO witnesses specified—between a tax collected from a highway user and the interest gained in the balance in the trust funds.

The legislation provided each one considered income to the Highway Trust Fund. I believe if the Congress and the Administration want to operate the Federal Aid Highway Program on a true deficit neutral status, deficit neutrality should include in the calculation the amount of interest that comes into the trust fund each year.

We believe the significant question Congress should be asking when you talked about the administration of the Highway Trust Fund is what is the minimum balance needed for fiscal stability? To us it is somewhere in the range of $2 or $3 billion. It is not $10 billion, it is not $17 billion, it is not $21 billion.

The second problem that really concerns us—particularly in light of headlines just this week—is the prospect for potential use of federal gas taxes for other non-transportation reasons, or for financing other programs the Congress would want to finance. This committee knows how strongly our members have supported the principle in H.R. 41, which was supported by everyone on this committee, and half your colleagues in the House.

In any event, we certainly hope that the current attempts to try and reach some kind of long term fiscal solution that will help reduce the size of the federal budget deficit does not come back through a highway program through a major increase in the federal gas tax.

The third problem I hope the committee would look into is the extent to which there is evasion in paying taxes around the country right now. You have heard from previous witnesses that there might be as much as $1 or $2 billion a year skimmed off by people, rather than paying taxes into the trust fund. This is real money and it holds down the size of the highway program at the time when everybody knows the highway service is not what the American public wants.

The fourth potential problem area is the area of exemptions from payments to the trust fund. The largest single exemption right now

is in gasohol. Congress, at the present time, is debating the possible influences within the Clean Air Act legislation which is pending in the House, that to us would significantly increase the amount of diversion of revenue that would not go into the Highway Trust Fund because of expanded use of alternate fuels.

We would hope all these items will be considered by the committee. As you look ahead to the 1991 legislative cycle, it is our feeling that this is the most important time period for the long-term health of the nation's highway system since the trust fund was first established in the 1955–1956 era. We hope the committee will keep reauthorization on a timely schedule so we don't have to wait for the bill until the end of September 1991. We urge every speedy process on this committee to advance that schedule.

We also guarantee you will have all the help and support from the members of the Highway Users Organization as the reauthorization continues. Again, it is the most important thing on the agenda for our members over the next two years. We want to make sure this reauthorization process works to the benefit of all Americans.

Finally, thank you again for the opportunity to testify this morning. I would be happy to respond to any questions which my testimony, or perhaps even the previous witnesses' testimony might call for.

Mr. ANDERSON. Thank you. We will hold questions until we hear the others, and then we will ask questions of all of you.

Mr. Francois.

Mr. FRANCOIS. Mr. Chairman, my name is Francis B. Francois, and I am the Executive Director of the American Association of State Highway and Transportation Officials, known as AASHTO. I will file my statement and summarize.

Your first questions relate to the Highway Trust Fund. It is wise to go back to the beginning of that and remember what the Congress did. It originated when Congress enacted the Federal Highway Act of 1956. Section 209 of that Act established the Highway Trust Fund itself. Originally the revenue was to come from a three cent on a gallon fuel tax, which was raised to four cents in 1959, where it remained until enactment of the STAA of 1982.

A key issue today in the administration of the Highway Trust Fund is how the interest on the balances in the trust fund is to be handled. The 1956 Act provided that: "It shall be the duty of the Secretary of the Treasury to invest such portion of the trust fund as is not, in his judgment, required to meet current withdrawals. Such investments may be made only in interest bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States."

The 1956 Act was very explicit on how the interest from such investments is to be treated, stating:

"The interest on, and the proceeds from the sale or redemption of any obligations held in the trust fund shall be credited to and form a part of the trust fund."

Now, I heard this morning one of the GAO witnesses state that there are major differences between this trust fund and private sector trust funds. I would take strong issue with that. Let's compare a bank passbook with the Highway Trust Fund. In the bank

pass book account the owner deposits funds into the account. In the Highway Trust Fund the users pay fuel taxes which are collected by the Treasury and credited to the account.

In the bank, the bank then takes the deposited money and invests it in a variety of places—perhaps CDs, for example—which earn interest. The Treasury invests the deposits in the Highway Trust Fund in US securities, which by law, is all it may be invested in.

In the case of the bank, interest is earned on the investments the bank makes on savings accounts. The same is true with respect to the Treasury.

In the case of the private sector, the interest is deposited into the personal savings account. By law, the same is true on the federal side in that the interest earned must be deposited into the Highway Trust Fund.

Here is the real difference. In the case of the bank the owner can withdraw interest. In the case of the Highway Trust Fund we have to leave it there. We can't spend it. I don't think that is what Congress intended and I don't think that is what people believe is true of the Highway Trust Fund.

In 1982, we had the amendments which established Highway and Mass Transit accounts in the Highway Trust Fund Act. We provided that one cent of the tax on gasoline and one cent of the tax on diesel fuel would be deposited into the Mass Transit Account of the Highway Trust Fund. The original concept was that expenditures were to be limited by the amount of revenue flowing into the trust fund, revenue from both taxes and interest. The Byrd amendment was enacted to limit annual spending authority so that the trust fund could not run a negative balance.

For well over a decade the Highway Trust Fund functioned very effectively to provide Federal assistance to the states, in the manner of a true and independent trust fund. Highway users understood that the revenue from their federal fuel taxes and other highway user fees were being deposited into the trust fund, that whatever interest was earned on unexpended revenue was accredited to the trust fund, and that both tax revenue and interest would be utilized only for highway purposes. During this period, the Highway Trust Fund was separate from the rest of the federal budget.

Mr. Chairman, as this committee is well aware, the Federal Aid Highway Program operates on the contract authority principle. Your committee periodically generates authorizing legislation, which establishes the level of highway funding available to each state. Annually, and as directed by statute, these authorizations are allocated or apportioned to each state on October 1, giving that state what is called new obligation authority, which is added to the state's outstanding or unused old obligation authority. Obligation authority has a life of from two to several years, depending on the category of funding, when it will lapse if not used.

The states were aware of the expected level of Federal-aid support in advance of the need for providing matching state funding, allowing timely consideration and adoption of state highway budgets and the establishment of reliable programs. Local governments and the general public could rely on program projections, and generally knew with some certainty when highway facilities would be

in place. Those engaged in the construction of factories, commercial centers and housing could plan their developments on the basis of projected highway construction, and the construction industry and its suppliers could plan ahead with a high degree of assurance. All of this helped assure the most effective and efficient use of both Federal and state highway funds.

Then came the invention of obligation ceilings, and the unified Federal budget.

The Federal deficit problem our nation faces today began during the Vietnam War. In 1966, in an effort to control inflation and deal with wartime expenditures, the decision was made by the Executive Branch to place controls on the need for liquidating cash in the Federal Aid Highway Program. Some of the states filed suit against those impoundments and won. The impoundments were found to be illegal. But the Executive Branch continued to seek ways to reduce highway program funding levels set by Congress.

In 1968 the unified Federal budget was created, and the Highway Trust Fund lost its off-budget status and was folded into the unified budget as if it were a normal grant or entitlement program. In 1974 the Congressional Budget and Impoundment Control Act was enacted, which gave Congress the authority to overrule impoundment actions of the Executive Branch. In 1976, Congress itself enacted the first obligation ceiling on the Federal Aid Highway Program.

The alleged purpose of the obligation ceiling is to control the requirement for liquidating cash during a given fiscal year, thereby controlling outlays and making them more predictable. The actual result of obligation ceilings is to override the authorizing committee with regard to the annual level of funding for the Federal Aid Highway Program, and consequent disruption of the highway planning and programming process at the state level.

I would like to concentrate on that last point. Typically, states begin the Federal Aid Highway Program process on the basis of the authorized levels approved by Congress. These authorization levels are used in many states in working with local governments and the general public to develop multi-year highway projects, and are employed with the state legislature and the governor for state budgeting purposes.

When later on obligation ceilings are then imposed by the Congress that significantly lower authorized highway program levels, a state reprogramming process must be undertaken. This is truly needless extra work that is costly, and which sometimes requires going back to local governments and citizens to advise them of project delays or possible cancellations. When this occurs the overall credibility of everyone involved, including members of Congress, is challenged.

Obligation ceilings make it difficult for state and local governments, contractors and all those who want to depend on orderly programming to be effective. They also waste funds that could instead be utilized to provide highway facilities in a timely manner. You have to undo things that have already been done. It is difficult to explain at best, certainly inefficient, certainly wasteful.

Let me turn to the trust fund balances. I have provided a written analysis in my prepared testimony, based on certain assumptions.

Those numbers can change and I understand GAO already changed some of them here this morning. We understand that. Also, I will refer to some tables that are also in my prepared statement.

The trend of Table I that I gave you is very clear, but is something that is too frequently ignored. It was recently ignored by USDOT in some of its testimony and by those who like to look at just one year in the Federal Highway Program.

Let's assume the program is simply allowed to run to its end as currently authorized and nothing replaces it. What then occurs? What happens, of course, is that we have authorizations in the highway program running through fiscal year 1991, the one that you are now working on. The taxes run for two years thereafter.

In point of fact, there is another $28 billion or so that will flow into the Highway Trust Fund from revenues and interest after the authorized programs end, which means even though there are unpaid outstanding authorizations, in point of fact, by 1994, the program would have a real surplus of $5 to $8 billion depending on how the numbers work and what the Congress does in the meantime. So the program does have excess funding flowing into it. It is well established. We tend to ignore that and look the other way, but it is true.

Mr. Chairman, what that means, and as the GAO has said, is that it would be possible to increase authorizations right now by several billion dollars. The National Governors Association and others have proposed exactly that. The House Budget Committee has proposed an increase. It is about halfway toward what the NGA worked for. A question can be asked: Can the states support this added funding in fiscal year 1991? A survey we did in February said yes, they can. The monies would be found.

Mr. Chairman, let me move now to another area, and that is, are the states doing their fair share in all of this? I have offered you Table II, which traces state performance from 1980 to 1988. It indicates that during that period of time the states have matched Federal dollars, and that in fact, the states' share has grown faster than the Federal share in the Federal Aid Highway Program.

The average state fuel tax increased from 8.4 cents per gallon in 1980 to 13.24 cents in 1988, according to the Federal Highway Administration records. They leave off in 1988. We know there have been substantial increases since then. As of 1990, the average state tax is over 16 cents per gallon, with over one dozen states being over 20 cents per gallon.

There is no question but that the states are prepared to match the Federal program and have gone beyond it. Why? Because our needs are beyond what the current programs offer. The current year federal aid highway program level is about $13.8 billion. We believe it should be at least $18 billion, Mr. Chairman, and climbing toward a range of $26 billion over a four or five year period. Then we can reasonably begin to address the problems that this nation faces on the highway network.

For those reasons, we share Mr. Lamm's concern about the future of the Highway Trust Fund, and we share Mr. Lamm's concerns about the diversions from that trust fund and about the failure to collect all the money that is due us. We need all of those things and more.

Let me turn briefly to the Mass Transit account. Again, we are not spending all the money that comes in. The GAO report made this clear. We think it is as wrong in the Mass Transit account as it is in the Highway account to not fully spend all the user fees that have been paid. At a time when our nation is worried about urban congestion and air pollution, to not fully support and spend the mass transit dollars that are available just doesn't make good sense. Again, that program should be larger than it is. We have already outlined that to the committee.

In the Airport and Airway Trust Fund, we have essentially the same story. We have not over the years spent the dollars that were authorized. We should be spending them. Anyone who travels the American air system as I do, and as I am sure all the members of the committee do many times, know we have severe problems out there. Those problems need answers. The answers come from dollars. Those should also be spent.

Mr. Chairman, we believe that there are three basic things that need to be done to right all of this—going back to the highway program and the Highway Trust Fund:

One, remove the obligation ceilings. There simply is no need for them. How do you do that?

Two, remove the trust fund itself from the unified Federal budget. If the trust fund was restored to its independent status, there would be no justification for obligation ceilings because then it can have no impact whatsoever on the general budget of the United States Government.

Finally, Mr. Chairman, we submit that the trust fund should be made permanent. This would help solve the problem of the outstanding obligation authority and the outstanding authorizations that are out there. It would go a long way toward ending the yearly or bi-yearly or quadrennial arguments we get into.

In summary, we commend the committee very strongly for holding this hearing. We clearly must put trust back into our highway and aviation trust funds. We must end the arbitrary restraints placed on spending from these trust funds by obligation ceilings, restraints which are very disruptive to the orderly planning of transportation projects, which cause waste and inefficiency, and which damage the image of government when the word "trust" is violated in the administration of these funds collected from transportation users.

In addition, Mr. Chairman, we need to increase the overall level of Federal support for highways, public transportation and aviation. The states have been providing substantially increased funding over the past decade and we believe our Federal partners should do the same.

Mr. Chairman, I will be pleased to respond to questions now, or later in writing.

Mr. ANDERSON. Thank you.

Mr. Mudge.

Mr. MUDGE. I am Richard Mudge. I am President of Apogee Research, a public works consulting firm that specializes in economics, finance, and policy research. Prior to founding Apogee, I served as Chief of the Public Investment Unit of the Congressional Budget Office. At CBO, trust funds were one of my specialities. Apogee's

clients include a wide range of public and private oganizations, but my comments today represent my own personal views.

I appreciate the opportunity to discuss transportation trust funds with the committee today. At first glance, trust funds appear relatively simple compared to many esoteric financial techniques. Nonetheless, they differ enough from traditional Federal finance and have a long enough history that they can create interacting problems.

I think it is important to examine basic principles. The world of 1990 is very different than the 1950s when the Congress first considered trust funds. My brief testimony today takes a broad, forward looking point of view. That is, rather than focusing on the pros and cons of moving the trust funds off budget, I believe it is important to return to basic principles.

To simplify, two basic rationales have been used to justify the special rules accorded trust funds. To the extent these have changed, the need for trust funds will have changes as well. The first rationale concerns the long-time horizon needed to plan and then build large-scale public works projects. The second relates to the source of funding.

First, public works projects differ from most Federal spending programs in that they require a long lead time in order to identify worthwhile projects, plan them, develop detailed engineering designs, and finally to construct them. In most cases, more than one level of government is involved. The multi-year 42,500 mile interstate highway system provides the classic example of the need for a coordinated program. Without long-term funding assurance, financial and personnel resources will be wasted.

Second, in return for paying increased levels of user fees, the user community was told that these funds would now be dedicated to investments in a particular mode. Dedicated user fees are a classic tool to encourage efficient investments and trust funds are one way to offer some protection from the year-to-year budget pressures faced by Congress.

Are these two rationales still valid today? Not too surprisingly, I believe they are. Despite completion of more than 40,000 miles of interstate highway in a relatively short period of time (most were under construction by the late 1960s), the capital needs of the nation's public works system remain large enough to require a special set of rules for at least some transportation investments.

In addition, the unwritten contract between users and the Federal Government may even be more important today than in 1956 or 1970. Indeed, the $30 billion in cash that sits in the three major transportation trust funds remains a public relations road block to any serious increase in funding.

It is easy to focus on the $30 billion cash balance that has built up in the Highway Trust Fund and the Airport and Airway Trust Fund as a simple answer to transport finance problems. While the history of this buildup complicates the debate, the balance should still be used for transport public works.

Our huge Federal deficit impedes rational debate over the cash balance problem. Very simply, every dollar change in the cash balance represents a dollar change in the Federal budget deficit—re-

ducing the highway cash balance by $1 billion and growing; extra spending for a single purpose issue is not likely to win out.

Second, even if the full $30 billion in cash—less perhaps $5 billion or $6 billion for cash management needs—were obligated over the next five years, the capital requirement of the transportation system would still be umet. For example, $25 billion in extra spending over five years is still only $5 billion a year—enough perhaps to offset inflation over the next five years, but well short of recent evidence of what the nation's economy requires. At the end of five years, the Congress would have to raise user fees or reduce spending, a no win choice if there ever was one.

Meanwhile, the political and analytic talents of the transportation community, both inside and outside of Congress, will have been diverted from developing an effective long-term solution.

Similarly, while I believe that the great debate over moving the trust funds off budget is motivated by good intentions, and I hope succeeds, it is likely to divert attention from what may be more important long-term issues. For example, it may make more sense to consider ways of providing true budgetary independence as part of a general effort to reform the trust fund structure to match the transport needs of the 1990s.

While much of the debate in the popular press over public works focuses on the need to maintain what we have, I believe the nation faces a potentially serious shortfall in long term capacity. Any revised trust fund for the 1990s should fill that need. While I recognize the importance of matching financial tools to fit the particular needs of each mode, let me provide an example from airports as to how the current Airport and Airways Trust Fund could be modified to achieve independence from the budget process while putting in place a financial institution that could meet major airport capital needs. I believe these problems are found to different degrees in highways and transit as well.

The current system of Federal aid for airports was largely enacted in 1970 and designed to meet the problems of the 1960s. In terms of the problems of the 1990s, I believe it is at best inadequate, at worst broken. We need new financial institutions that will provide the framework for future growth. A key word is institution, since a wrong framework will hinder adequate funding.

While the combination of bonds and AIP funds that worked so well for so long need not be replaced, new tools are needed that will allow us to meet the new political and capital problems faced by U.S. airports. In recognition of current Federal budget level of government for most airport decisions, the Federal role will be one of a catalyst rather than a lead banker.

What key changes have occurred over the past 20 years? Certainly the magnitude of needs included in NPIAS is much larger. This by itself is not enough to motivate financial innovations. I believe that three forces are now apparent:

First, after a dozen years of economic deregulation, we have now entered a mature deregulated system. Key characteristics of this system are the reduced number of major air carriers and the hub and spoke system. In some cases, airline hubs have become a form of de facto private economic regulation. As a result, hubbing airlines may have an incentive to delay new airport capacity invest-

ments. The court cases over the new Denver Airport provide one obvious example.

This means that airlines may prefer the risk of building new capacity too late as opposed to on time, or too early.

Second, adding significant capacity is now more difficult simply because the land around our major airports is now built up. Single purpose opposition groups have become more effective and thus able to slow down many public works projects. NIMBY, or Not In My Back Yard is no longer an exotic phrase. As a result, adding new airport capacity is now a process that is likely to generate strong political opponents, yet will not show tangible benefits for a decade or two—a long time in any politician's career. Third, because the aviation industry has been so successful, the scale of investment needed to add significant capacity has also increased. The growth of our metropolitan areas merely adds to this problem because few low cost options remain for major airports. Thus, even at existing airports, expansion plans of $1 billion or more are not unusual.

In combination with the difficulty of obtaining airline approval and the uphill battles before political rewards are received, the existing financial tools are inadequate. I believe that financial tools are needed that can provide significant sums of money and yet are available with fewer strings than current programs. There is no need to replace the bond market as the primary tool for most major airport investments, but I believe there is a public role in providing a way to any new tools should be seen as ways to leverage.

Few financial tools are truly new, but the rationale for implementing them may be new. In my opinion, the goals for any new instrument should combine:

Independence from the federal budget process;

The ability to leverage large sums of money;

And help encourage local communities to face the multi-year organizational and political battles needed to make major capacity additions.

Revolving loan funds have been a tried and true tool of infrastructure finance for more than 30 years. Every state in the nation either has or will have one or more such funds in place in the next year or two. For airports they could provide large sums of money—something AIP was never designed to do—and could be used early in the investment process to help encourage communities to take on strategic airport investments.

Such a fund could be on or off budget with the tradeoff being greater independence from Federal budget battles versus a short-term increase in the federal deficit. A leveraged fund, issuing its own bonds backed by future airport repayments, would minimize the level of initial capital. Simulation runs show that more than a billion dollars a year in airport capacity loans could be supported with only about $250 million a year in Federal outlays for the startup capital. Loans would be at current market rates and as repayments were made to the fund, the need for additional capital would end.

There are practical problems with the revolving loan fund approach, not the least of which is the natural concern with any new

idea. One option would be to create an independent authority—call it a public bank—completely outside the Federal budget. Federal funds from the cash balance would be one source of seed capital and offer an opportunity to move excess cash from the trust funds over time.

While the Airport Bank should be congressionally chartered, it ensures coordination with FAA. For example, it would operate as an independent, stand alone corporation, with its own board of directors. It could leverage its capital through its own bonds, presumably competing in the corporate market. Most importantly, it could make loans to airports with large, capacity related investments. These loans could be at tax exempt market rates and would be limited to only a portion—perhaps a fourth or a third—of the projects' total costs. The bank's capital would grow as these loans were repaid.

Many details remain to be worked out, but I believe that the loan fund concept offers one of the few ways that all major parties might gain. Most importantly, we would have in place an efficient and effective institution designed to meet the major airport capacity needs of the next few decades. It would combine private sector principals with the need for investments that benefit the public at large and would be independent of Federal budget controls.

In conclusion, I would like to thank the committee for allowing me to testify today. I will be happy to answer any questions.

Mr. ANDERSON. Thank you, Dr. Mudge.

My first question, Mr. Lamm, why did the Highway Trust Fund balances get so large?

Mr. LAMM. The table which was in the GAO report shows how it happened and why it is really in two big lumps.

One in the 1960's, largely during the Johnson Administration, the Administration at that time tried to find ways to offset the great expenditures that were going overseas partially in the Vietnam War. Consequently, they imposed unilaterally a restriction on the amount of authorized federal aid highway funds that could be used by the states. That again, I believe, in mid-1967, and continued through until the early 1970's, when a court case that was taken all the way to the Supreme Court by several states led by Missouri, established that unilateral Executive Branch impoundment was illegal, unconstitutional.

I believe in 1975, a big backlog of those unused funds were put back into circulation. Coincidentally, Congress passed the Impoundment Control Act of 1979. That, in turn, established an authorization of a constitutionally valid way by which program expenditures could be reduced again.

In the early years the obligation control through the mid-1979's, it was almost a non-event, because although controls were established by the Appropriations Committees, they were established with a great deal of discussion.

They never, in effect, really held back the spending on the highway program. That began to ratchet down, to take effect in the early 1980's, which led to the build up that we see up to this point.

Mr. ANDERSON. So that the record is clear, how much more spending can the Highway Trust Fund support?

Mr. LAMM. The way we look at the funds, Mr. Chairman, assuming the validity of the Administration estimates through 1991, that are contained in the most recent budget, by the time the committee is considering in the next authorization period beginning fiscal year 1992, we see the opportunity to raise the ceiling by, roughly, 50 percent over about a three-year, perhaps a four-year period and still not require any additional tax increases, still be living almost completely on the balance in the trust fund during that time period.

That would be from fiscal year 1992 through either 1994 or 1995. I would ask the Federal Highway Administration and the Treasury Department for more accurate figures.

Either a three- or four-year period, which would permit the highway operation ceiling to be up in the range of $20 billion during that time period.

Mr. ANDERSON. Again so the record is clear, why aren't we spending this available money now?

Mr. LAMM. Well, I think all of the witnesses have talked about the issue, and I would agree that depending on the actual language you like to use.

The only real concern is that increasing the highway program would by your current definition of budgetary validity, would offset the budget, the Federal budget deficit by a like amount. There hasn't been in recent years a good year to, for a conscious attempt to increase the size of the Federal budget deficit.

Mr. Chairman, you have asked several of the witnesses how they would handle that issue. In my testimony on page 8, I talk about that.

I would agree with the previous witnesses on this panel that simply taking the Highway Trust Fund off budget would not be a sufficient financial mechanism to permit the larger expenditures that we would all like to see happen. Something else has to take place.

Either an exemption from Gramm-Rudman or as I have suggested on page 8 of my testimony, perhaps, a complete redefinition of the Federal budget process. Set up a capital budgeting column in an operation budget and allow the operating budget to have the same kind of fiscal control that is imposed by Gramm-Rudman today, but to allow the, in effect, capital budget accounts, including the trust fund for the transportation, trust fund accounts, to operate under their own fiscal controls.

In the case of the Highway Trust Fund, the Byrd Amendment would be sufficient.

Mr. ANDERSON. Mr. Mineta?

Mr. MINETA. Using that as an example, we heard earlier that 3.75 percent of the Federal Highway Administration's administrative function is paid for by the Highway Trust Fund.

Even if you did set up a capital budget and an operating budget, what would happen now in that instance with that 3.75 percent if it is under the capital piece of it.

Would the Gramm-Rudman still be applicable there or would you withdraw the 3.75 administration of those grants and aids over to the operations side?

Mr. LAMM. Let me clarify that point a little bit for you. Three and three quarters percent is a statutory limit.

It is in Section 301, of Title 23. It permits the Federal Highway Administration to expend up to 3.75 percent of trust fund revenues.

Mr. MINETA. What would you say is the historical use?

How much have we used since we have not used the full——

Mr. LAMM. Normally it is in the range one and one quarter. It covers the administrative expenses of the entire Federal Highway Administration staff other than those people whose salaries are covered by some other kind of reimbursement.

For instance, the Federal Highway engineers that field road projects on Federal lands for the Park Service or the Bureau of Indian Affairs are paid by transfers out of those accounts.

Then their salaries are not counted out of the Administration accounts.

Mr. MINETA. Are these 600 and some accounts that you were talking about?

Mr. LAMM. They were included in the close to 600 accounts. Most of those accounts are typical Federal-aid highway programs.

Particularly in recent years, as the committee has gone into the issuance of many demonstration project accounts, that seems to increase the number of fiscal records.

Mr. MINETA. Each of those demonstration projects are another account?

Mr. LAMM. It is my understanding that each of them carries its own separate nine digit OMB classification. I also understand the Federal Highway Administration has been able to administratively combine some of those accounts into the same category.

I won't—I have been removed long enough so that I can't say for sure that every one of those demonstration projects is a specific account by itself, but they all increase the complexity of administering the fiscal balance in the highway program.

Mr. MINETA. Thank you, Mr. Chairman.

Mr. ANDERSON. Mr. Francois, couldn't the states increase their highway programs to absorb the additional trust fund monies?

Mr. FRANCOIS. Yes, they can.

As I have tried to point out in my Table II, tracing the history of the state role and going back, for example, to the 1982 act, there was an assumption then that the states might possibly not be able to match the 5-cent increase. But they did.

During the 1980's, after the 1982 act, there were some 92 different actions in state legislatures increasing state full taxes, which not only matched the Federal dollars, but went beyond that.

As I said in February of this year, we did a survey of the states in response to the request of the National Governor's Association where the effort is to raise this year's obligation ceiling to a level of $15 billion.

Uniformly, with three or four minor exceptions, the states will match it. I have no question whether the states will find the dollars.

Mr. ANDERSON. The states could manage to produce the matching funds needed to increase trust fund spending?

Mr. FRANCOIS. There is no evidence otherwise.

Mr. ANDERSON. Dr. Mudge, can the Highway Trust Fund support higher yearly outlays?

Mr. MUDGE. It certainly can. A key thing to look at is how much cash should you have in the trust fund to make it fiscally sound, fiscally sound management tool.

Because of variations in income and spending, you probably need $2 billion to $3 billion for the highway account, any excess beyond that could be spent.

Mr. ANDERSON. Also can the Aviation Trust Fund support higher yearly outlays?

Mr. MUDGE. The same line of argument holds there. In fact, if you look at, if there is $30 billion in cash, you probably need $5 billion or $6 billion total across the mass transit account, highway account, airport ways, and the rest of the money could be spent.

Mr. ANDERSON. Why aren't we spending additional money if the trust fund can provide it?

Mr. MUDGE. It is very simple. Congress and the Administration—well maybe not in total agreement, have a bigger problem to deal with. That is the Federal budget deficit.

Mr. ANDERSON. The American people think the gasoline taxes and ticket taxes go into separate Highway and Aviation Trust Fund in return for a promise from the government to spend those taxes on transportation needs.

How do we tell the public that those needs won't be met because there is no real money in the trust fund and the Treasury's general fund is running balanced deficits?

Mr. MUDGE. I think it is a hard issue to get the public to agree to. I have been going around the country and talking to people in recent years.

I hear more concern, complaints about the cash balance and the trust funds. Five or six years ago it was a Washington-based issue.

Now it is a national issue. People say, you know, ask a very good question. Why should we increase our local fees, our Federal fees when the Congress is unwilling to spend the money?

Mr. ANDERSON. Mr. McEwen.

Mr. MCEWEN. I thank you all for your testimony. It has been most helpful. Anything I would ask would be repetitious to what you have already said except, Mr. Lamm, let me just ask, where do you stand on additional user fees?

Mr. LAMM. The first order of business is to use the current tax revenue in a more timely fashion.

The second order of business is to see if you need additional revenues after you have done that.

We would hope that Congress would hold back from proposing additional revenues until such time as we have reduced the balance in the trust fund down to around $2 billion to $3 billion range.

At that point I think it is quite likely the highway users would support a modest increase.

Mr. MCEWEN. You would be reluctant to support increases as long as the current program was being operated with?

Mr. LAMM. With the recent history of Congress and the Administration and using current tax and revenue, in all honesty, I

couldn't recommend to my members that they support a tax increase.

Mr. MCEWEN. Thank you.

Dr. Mudge, the Aviation Trust Fund numbers sometimes focus on $13 billion, sometimes on $6 billion uncommitted balance. Is that significant?

Mr. MUDGE. There is a significant difference. I don't think the key thing to focus on is the cash balance and the fact that part of it is totally uncommitted and part of it is promised against future spending.

It kind of muddies the waters. If you look at the Highway Trust Fund and the mass transit account, the Highway Trust Fund in particular, the focus is on the total amount of cash balance there even though that money would still be committed to pay future bills.

I think the key thing is to focus on the $13 billion that is sitting there and probably you need may be $2 billion to manage that trust fund properly, so there is $10 or $11 billion more that would have to be there to manage that trust fund as a financial tool.

Mr. MCEWEN. I thank all three of you very much.

Mr. ANDERSON. Mr. DeFazio.

Mr. DEFAZIO. Thank you, Mr. Chairman.

Dr. Mudge, in your conclusions in talking about the possible ways of dealing with the projected deficits in the improvement funds, you don't seem to address how it is that the individual airport authorities would raise the money in order to meet the obligations being incurred under these scenarios, which include loans or bonding or financing.

Do you support passenger facility charges, user fees at that point?

Mr. MUDGE. I am a big fan of user fees and passenger facility charges are one form of user fees. I think it makes sense to provide them as a financial tool for the major airports, in particular.

I think there are ways of coordinating passenger facility charges with an airport bank. Even without passenger facility charges, the largest airports top 40, 50 or so.

The ones which have the biggest capacity problem, they can generate user fees for landing fees and charging for concessions and such.

Mr. DEFAZIO. We have had a hearing on this. There are some, in many cases, strongly worded long term contractual obligations with the airlines that might preclude them easily raising those funds through changes in fees charged.

Mr. MUDGE. It does make it more difficult. It is more difficult for the largest scale products.

Denver is a very good example. Because the airlines have a vested interest in down capacity growth.

It becomes much more difficult. That is why I would argue that maybe you need to have a different funding tool.

There is a need to make much larger amounts of money available than have been done through the program in the past. Some form of airport bank is one way of doing that.

Mr. DEFAZIO. I look at these things more as an adjunct to the existing AIP program. My idea would be an airport authorized

needed capacity improvements, they apply, there would be large amounts of money necessary to the Federal program and the federal program says the money isn't there. We can't obligate it in the five-year planning period.

Then they would have the option of assessing a passenger facility charge or something else to leverage funds at the local level.

Mr. MUDGE. That makes sense. If you look in the 1970's, the AIP program was set up to meet a certain set of problems. These problems are still there.

I don't think that program should be altered in any major way. The idea of having an airport bank or some other different institution is to meet the problems of today that did not exist in the 1970's. That, in my view, was mainly a major capacity shortfall.

Mr. DEFAZIO. You also look at this as an adjunct?

Mr. MUDGE. Yes.

Mr. DEFAZIO. Thank you.

Thank you, Mr. Chairman.

Mr. ANDERSON. We have to go vote.

It has been pointed out that you have pretty well completed your testimony.

We are going to excuse you.

Then we are going to recess for going to vote.

We will get a lunch and come back at 1:30 p.m.

[Whereupon, at 12:15 p.m., the committee recessed to reconvene at 1:30 p.m. the same day.]

[Mr. Lamm's prepared statement appears on page 159.]

[Mr. Francois' prepared statement appears on page 117.]

Mr. ANDERSON. The meeting of the Committee will come to order.

Our next panel is Ms. Moore, Assistant Secretary for Budget and Programs, U.S. Department of Transportation.

TESTIMONY OF KATE MOORE, ASSISTANT SECRETARY FOR BUDGET AND PROGRAMS, U.S. DEPARTMENT OF TRANSPORTATION, ACCOMPANIED BY GENE McCORMICK, DEPUTY ADMINISTRATOR, FEDERAL HIGHWAY ADMINISTRATION, AND MIKE MOFFET, ASSISTANT ADMINISTRATOR, FEDERAL AVIATION ADMINISTRATION FOR POLICY, PLANNING AND INTERNATIONAL AVIATION

Ms. MOORE. Mr. Chairman, Congressman McEwen, members of the subcommittee, I thank you for inviting me here this morning to discuss the transportation trust funds. I am pleased to have with me today Mr. Gene McCormick, the Deputy Administrator of the Federal Highway Administration, and Mr. Mike Moffet, Assistant Administrator of the Federal Aviation Administration for Policy, Planning, and International Aviation.

Dealing with issues related to the transportation trust funds has occupied a significant portion of my first year at the Department of Transportation—along with assisting in the development of Secretary Skinner's National Transportation Policy, where we dwelt considerably on the nation's infrastructure needs.

Thank you again for allowing the Department to come before you to present the transportation policy.

With respect to the Highway and Aviation Trust Funds, I have learned that the issues are complex, that the public debate on the issues includes a great deal of misinformation, and that setting the record straight is a difficult task. For that reason, I appreciate your willingness to provide a forum for informed debate of the issues.

You all have my longer prepared statement which I have submitted for the record where I lay out in detail the history and function of the trust funds. In this abbreviated statement I will provide brief background on the trust funds and answer your specific questions on budget status.

I hope you will bear with me. I know you spent the whole morning on another point of view.

I will try to move fast.

Let's move to the balance in the trust fund. If we look at the Highway Trust Fund, I think there are two important figures in any discussion of the trust fund balances.

The cash balance and the uncommitted balance. The cash balance represents the amount of money the Treasury Department credits to the trust fund at any particular point.

There are two important points about the cash balance. One, there is not really a pot of cash per se sitting in the Treasury. Rather, it is invested in government securities.

Two, the cash balance is not a surplus in the highway account since there are indeed outstanding commitments against it. That is bills for commitments already made that will have to be paid.

The situation might be compared to a personal checking account.

You may have written checks that have not cleared your bank yet, so the bank statement of your account looks better than you know your account to be.

At the end of this fiscal year we project a cash balance in the Highway Trust Fund of $17.9 billion, $11 billion in the highway account and $6.9 billion in the mass transit account. Commitments against that balance will total $37.4 billion, $33 billion against the highway account and $4.4 billion against the mass transit account.

So, indeed, commitments will exceed the balance in the highway account by $22 billion and, for the mass transit account, the cash balance will exceed the commitments against that account by $2.5 billion—effectively surplus.

Turning to the highway account for just a minute, there are unobligated balances there. They exist because of obligations limitations and because of unobligated contract authority for programs not subject to the limitation.

States generally never fail to use all of the obligation authority available in one year due in part to the redistribution of unneeded obligation authority. In August of each year the states that cannot use all their authority allow use of that money to states that can use more in their highway programs.

This activity is authorized by law and helps us to use that money effectively.

Of the $33 billion in commitments against the cash balance of the highway account, $22 billion is unexpended obligations and $11 billion is unobligated balances.

I think just to put these balances today in some perspective from a historical standpoint, we should point out the cash balance

coming up at the end of this fiscal year of $11 billion compares to a level in 1979 of $12.6 billion.

Of course, if you put that 1979 number in 1990 dollars, it would equate to something like a $21 billion cash balance. So, it is a different number today than in 1979.

It did go down after 1979. In recent years the balance has been increasing in nominal dollars by an average of 2.4 percent a year since 1982, when the gas tax was more than doubled.

Now, looking at the $33 billion in commitments in the highway account, we see that they will be three times the cash balance at the end of this year.

Now, within that $33 billion in commitments, we have the unexpended obligations of $22 billion—unpaid bills for projects already approved.

And that $22 billion is twice the cash balance. By comparison, at the end of 1982, just before the fuel taxes increased, commitments were only a little more than twice the cash balance and unexpended obligations were only 46 percent higher than cash balance.

So, you can see that cash balance is more leveraged today than it was in 1982, if you think about the relationship of those commitments to the cash balance that is sitting there.

So, we are more actively using that cash balance today in that sense. If you compare it to 1979, commitments were only 50 percent higher than the cash balance, what was in the cash balance and unexpended obligations were only 8 percent more than the cash balance.

Shifting gears to the mass transit account, that account has a surplus basically because the authorized levels have been less than the level of annual tax receipts, not to mention total annual income including interest.

At the same time, however, Congress has appropriated an average of about $2 billion from general revenues for mass transit. Yes, sir, we have a surplus of $2.5 billion, but we have also spent $2 billion a year in general revenues.

Turning for a minute to the Airport and Airway Trust Fund, I am going to dispense with most of that history.

I think you got a lot of that this morning and in the written testimony. I will move to the discussion of uses of the funds for capital projects and operations.

The Aviation Trust Fund is available to fund a portion of FAA's operation expenses as well, of course, as capital expenses. Therein lies the center of controversy surrounding the Aviation Trust Fund balance.

In 1970, when the trust fund was created, Congress provided that after the trust fund monies have been used for FAA's capital programs the balance could be used for operations.

Ever since that time the question has faced us: how much for operations do we want to spend out of the trust fund. Or posing that question another way, what portion of FAA's total budget should be funded by user fees?

It is a basic question. In the highway program, we don't have that debate. It is basically 100 percent. But in the FAA area, we have had that debate.

Congress has contemplated that more than 70 percent of the FAA budget should come from the trust funds. It is in their authorizations.

The Administration this year is proposing an 85 percent recovery of the total FAA programs from the trust fund. But, the experience in the past several years has been well below these two numbers, whether it is the more than 70 percent that Congress contemplated or the 85 percent we are proposing, actual experience in the last several years has been closer to 55 percent due to the penalty provision and the way that the spending has played out in relation to the penalty provision.

So, to summarize the status of the three major accounts we are talking about here, with respect to highways, we have a more than fully committed balance in the highway account. In mass transit we do have an uncommitted balance due in part to authorized levels lower than tax receipts, and, in aviation, an uncommitted balance due to a relatively low contribution of the trust fund to the total program of the FAA.

Now, with that background on the trust funds, I will turn to the issue of the budget status of the trust funds, which I understand is of some interest. I think perhaps as we think about this, it is useful to ask ourselves a series of questions to help us reach consensus, if that is possible, on this.

First of all, one, are we committed to reducing the total Federal deficit, that is, to reducing the amount of money the Federal Government must borrow from private lenders to pay its bills? That is a basic fundamental question we have to ask ourselves.

Second, if so, can we ignore trust fund spending in setting the annual budget for the Federal budget?

Third, if not, if we can't afford to ignore it, should the levels of trust fund spending be established as part of the overall budget process?

Finally, if trust fund spending should be established as part of the overall budget process, have we been fair to those users who paid when we set those trust fund levels?

Let's look at the first question, are we committed to reducing the Federal deficit. By enacting the Gramm-Rudman-Hollings law, Congress and the Executive Branch established reduction of the Federal deficit as a national priority.

As that legislation developed, many Members of the Public Works Committee proclaimed the merits of the proposal observing that people were fed up with paying inordinate interest on Federal debt, noting that action on the deficit was an imperative obligation.

In October 1987 we saw renewed proof of the importance of dealing with the deficit when we had a serious market decline, the worst stock market decline since 1929.

Congress and the White House quickly reached a two-year budget agreement to assure the country the Federal Government could deal with the deficit.

The deficit, as we all know, is a simple calculation. Total Federal outlays minus total Federal income. The difference is what the Treasury must borrow from private lenders to pay its bills. In terms of how Federal spending affects the economy, that is the deficit that counts. It affects the interest rates. All borrowers pay, and

therefore, the cost to produce and distribute goods and services in this country and abroad. It affects our basic competitiveness. I would hope that whatever we may think about particulars in Federal spending, we can agree that it is critical for us not to lose sight of the total Federal deficit.

Now, second question, can we ignore trust fund spending in setting the annual budget for the Federal Government? If we can agree that we must not lose sight of the total Federal deficit, I think we must agree that we cannot afford to ignore trust fund spending levels in setting the annual Federal budget.

If we ignore it and deal with non-trust fund programs, we will not be considering the whole picture and we could not ensure that we would meet our deficit reduction targets. If we accelerate obligations to drawdown balances, the resulting outlays, in addition to the outlays that will result from obligations already made and from proposed spending levels from fiscal year 1991, could result in a significant increase in the Federal deficit above the Gramm-Rudman-Hollings target for next year, which already appears more difficult than we thought in January.

All right, going to the question of should trust fund spending levels be established as part of the overall budget process. If we can agree that we cannot ignore trust fund spending in establishing a budget, should the trust fund programs be on the table with other Federal programs? Or, perhaps should their spending levels be set first without regard to the competing needs and, then, spending be set for other programs so as to achieve overall deficit targets? I suspect we may begin to find disagreement.

Trust funds are supported by user fees dedicated to specific uses. So, the argument goes, the trust funds should be used without regard to spending in other areas.

I know that Members of the Public Works Committee are dedicated to seeing that the nation's transportation needs are met. There is an obvious frustration in not seeing more of the trust fund balances used to meet those needs.

On the other hand, those who pay user fees do benefit from other Federal spending programs for which spending might be reduced to offset increased trust fund expenditures. Some are obvious.

As I discussed, transit has been receiving almost twice as much in general Federal revenues as it has from the transit penny of the fuel tax, and it would be a mistake to ignore that.

Aviation users have been benefiting from FAA operations—services of air traffic controllers, those who maintain and control the air traffic equipment that we buy and aviation safety inspectors, for examples.

As an example of the kind of ironic consequence that might result from setting trust fund spending levels without regard to other government spending, highly aggressive expenditures for the FAA capital programs coming out of the trust fund might have to be offset by reductions in general fund support for FAA operations. We might be in a situation where we would be buying new computers for air traffic controllers to use and be unable to hire the controllers to use them.

This is a micro-example, I think, of the kind of disconnect in that process of making trade-offs and balance of priorities that could

occur if trust fund levels are not set in relationship to other spending levels.

The needs of our transportation system are real. Secretary Skinner and the heads of our operating administrations have been and will continue to be forceful advocates for meeting those needs both within the Administration and before Congress.

But, I don't believe we need special budget treatment, which may come at the expense of other DOT programs or other non-transportation programs of critical importance to America, to ensure adequate funding for transportation functions supported by trust funds.

That leads me to the final question as I get closer to the end here. Have we been fair to those who pay user fees when we set trust fund spending levels and can we be fair in the future?

I believe the answer is yes. Let me tell you why.

With respect to spending from the highway account, the amount of outstanding commitments is three times the cash balance, which means if we were to end the program at the end of this year, and apportion no new contract authority whatsoever, we would need to collect an additional $22 billion to pay off these commitments.

We would need an additional $22 billion. To put that into perspective, we project the highway account will receive $14.7 billion in tax receipts next year, so commitments currently exceed the cash balance by the equivalent of a year and a half of tax receipts.

We would have to collect the taxes for a year and a half just to catch up with what we have already committed to.

The important fact is the highway account spending has exceeded tax receipts since the creation of the Highway Trust Fund. Since fiscal year 1985, the highway account has added to the federal deficit in every year but one.

During the last highway authorization period, 1983 to 1986, spending exceeded user fee receipts by $3.8 billion. During 1987 and 1991, highway outlays are projected to exceed user fee receipts by approximately $2.3 billion.

Those who pay user fees are seeing more spent on highways than they are paying in those user fees. How do you explain this paradox?

The issue, of course, is the interest. The current cash balance is equivalent to the interest that has been credited to the trust fund less the excess of outlays over tax receipts.

I do not argue that the interest should not accrue or that it should not be dedicated to highway purposes. It is an intra-governmental transfer.

It is not a user fee per se. It is an intra-governmental transfer that doesn't affect outlays or the deficit until it is expended for the public.

It is money credited to a trust fund from general revenues, but with the deficit this country faces, the Treasury does not have that interest to spend.

If spending is increased to use more of the interest that is accruing, the Treasury will have to borrow to pay the resulting bills.

With respect to the mass transit account, outlays have been less than tax receipts, but total federal spending on transit has far exceeded tax and interest collected in the mass transit account. For

example, this year the mass transit account will earn about $1.3 billion in taxes and $550 million in interest.

Mass transit account outlays will total about $976 million, but total outlays by the Urban Mass Transit Administration will total $3.6 billion, almost three times the total tax revenue paid into the mass transit account this year.

Given those figures, it is hard to argue that those who pay the transit fee are not getting what they are paying for. We must carefully consider as we look at a reauthorization for 1992 how can we make better use of the mass transit account and reduce reliance on general revenues.

With respect to the Aviation Trust Fund, I know you heard about that this morning from GAO. Certainly the Congressional Budget Office pointed out to the House Transportation Appropriations Subcommittee that aviation users have received more in benefits than they have paid in taxes.

For example, total spending on aviation from the general fund and the trust fund has been greater than the excise tax revenues over the history of the trust fund. Since 1982 a total of $46 billion has been made available to the FAA. Of that amount, $26 billion was funded by user fees: the remaining $20 billion funded by general revenues. That is the 57 percent number I alluded to earlier in the testimony.

Aviation capital spending has grown significantly. The level of capital spending has more than quadrupled from 1982 to 1990.

Yes, the surplus is there for reasons we have talked about, but spending has grown for aviation to support those critical aviation programs. The Administration proposes a five year reauthorization from 1991 to 1995 with significant increases in program funding. That five-year term that we are looking at does provide a longer time framework for planning and budgeting. And the capital and research funding increase we are seeking is 73 percent in the next five years over the past five years.

We also, as you know, have proposed eliminating federal barriers to airports. We propose elimination of the barrier of the PFC. Given the forecast we see of increased delays in this country, we think it is very important to put into local area managers' hands every tool at their disposal to address capacity needs.

Major funding increases and a higher recovery of the FAA programs from the trust fund call for an increase in user fees, we believe, and we have proposed such.

Turning to the surplus, that is projected to be $7.6 billion by the end of this year, but with the funding levels we have proposed over the next five years, it would be reduced to less than $3 billion in 1995.

It is a drawdown, a significant decline in that surplus.

If the fees are not increased, the trust fund will be at a $1 billion deficit by 1994. The longer we wait, the higher the future level must be.

In conclusion, let me review the questions posed. Are we committed to reducing the total federal deficit? I hope so. I think the country's future is critically dependent on an affirmative answer to that question.

Can we ignore trust fund spending? I don't know how. If we tried, we wouldn't be considering the whole picture.

We could not assure that we would meet those targets that we all agreed to meet.

If we cannot ignore trust fund spending levels, should they be set as part of the overall budget process? I think they have to be. To do otherwise might mean critical underfunding of other government, including DOT programs, to achieve the necessary deficit reduction.

As I mentioned before, I doubt aviation users would want to see increased funding for airports and FAA equipment lead to insufficient funding for the salaries or training for FAA people who operate the equipment and control flights into and out of the airports.

If we set trust fund spending levels as part of the budget process, can we treat fairly those who pay the fees that go into transportation funds? As I hope I have shown you, we can do so. In all cases more has been spent on aviation and highways and transit than has been paid by users into trust funds.

Finally, where do we go from here? Your committee will be a key player in answering that question. We have submitted a bill for consideration by the Aviation Subcommittee for reauthorization of the federal aviation programs for the next five years, which we believe is a bold, aggressive proposal to meet the critical aviation needs of this country.

We are now working on a proposal for reauthorization of the federal highway, highway safety and mass transit programs. We look forward to working with you on this.

I thank you for inviting me to participate here today.

We would be happy to answer any questions that you have, sir.

Mr. ANDERSON. Thank you, Ms. Moore.

Ms. Moore, we are faced with a crumbling national infrastructure and airport delays are an all-time high.

In all fairness to the users, shouldn't we be spending all we can to improve conditions?

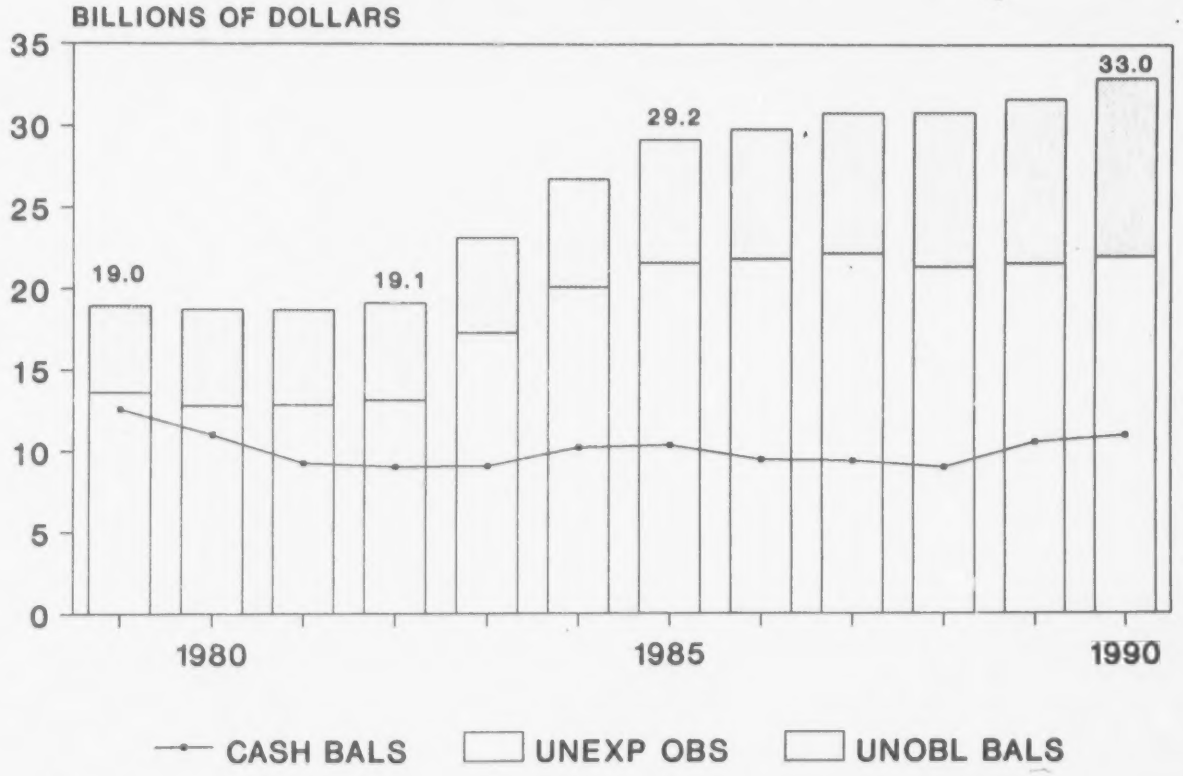
Ms. MOORE. I believe we should be spending all we can while recognizing the many balancing acts we have to make here in government.

Mr. ANDERSON. Why are the trust fund balances so high?

Ms. MOORE. The highway account balance is high, but we certainly have commitments against that balance. We have leveraged that account more than historically it has been.

This is a chart (insert attached), looking at the highway account now, that allows you to see the straight line, the dotted line, we do have a hard copy, the line through the bars is the cash balance.

HIGHWAY ACCOUNT, HIGHWAY TRUST FUND
COMMITMENTS VS CASH BALANCES



You can see the cash balance today is not historically high nor historically low. It is somewhere in the middle of what the cash balance has been for the past several years.

The white bars with the gray are the commitments against that cash balance. Those are the checks that have been written project by project representing funds ready to support activities in various states. And the gray section of the bar up at the top is the unobligated balance.

This is the contract authority that gets proportioned out to the states every year, but which is not spent largely because of the obligation limitation that is imposed. So, there is a need for cash balance. You can see it is over committed. You can see the commitments against that cash balance are far in excess of the cash balance, looking at that last column that ties to the $33 billion number I alluded to previously.

Mr. ANDERSON. How much more spending can the Highway Trust Fund support per year?

Ms. MOORE. The Department did issue a kind of overview on the trust funds.

In that release we did note that, within the constraints of the Byrd Amendment, we could increase funding to the tune of 35 percent for three years, and then, at that point, we would need to either raise taxes or bring down the program.

There is a series of assumptions that we made. Depending on which assumptions you use about budget authority and revenues, that could vary. That was a number we put out.

Mr. ANDERSON. Is there any reason based on transportation needs not to spend that available money now?

Ms. MOORE. The budget that we are proposing in 1991 allows us to maintain the level of condition, and prevents a decline that we saw back in the 1970's for our major roads.

We proposed a budget that would allow us to keep that decline from happening. The question of spending we will look at levels in the context of our reauthorization and look at where we are today with the needs. These are questions we will have to look at as we look at the next five year reauthorization.

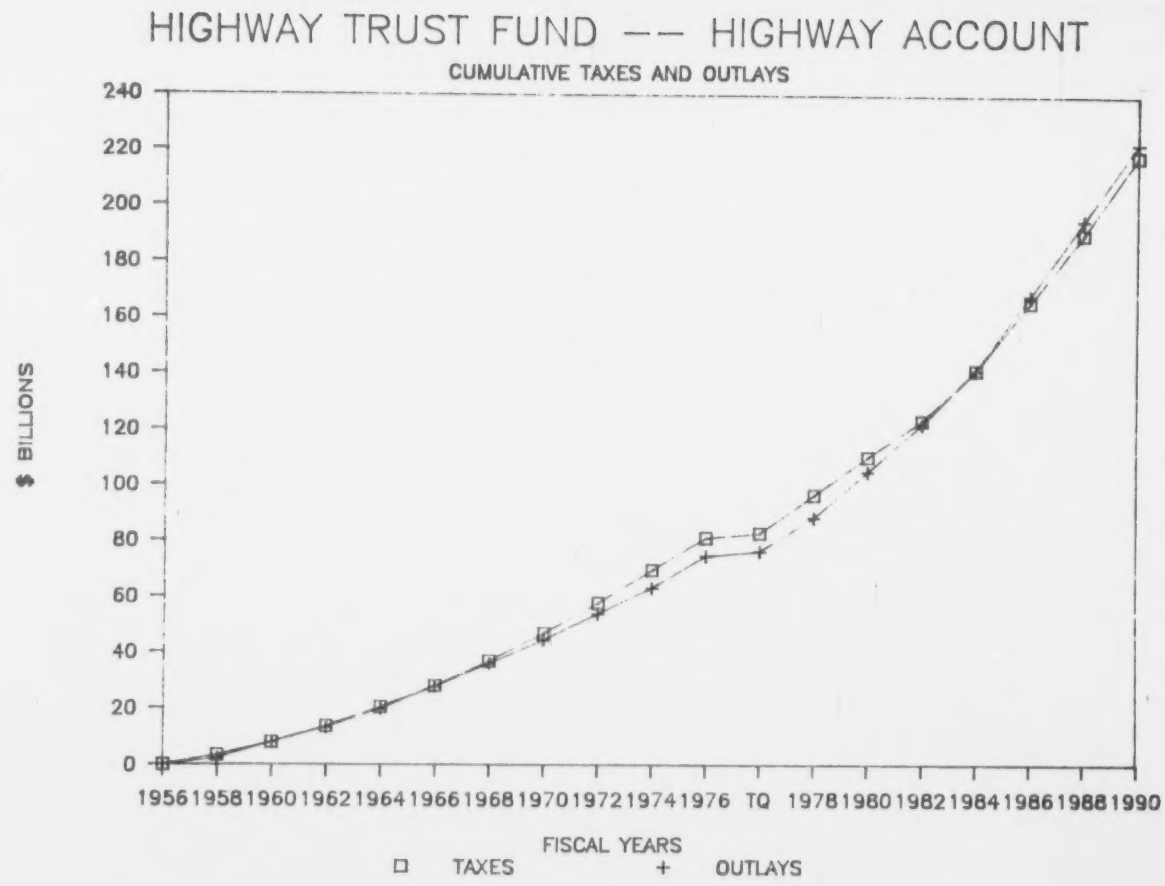
Mr. ANDERSON. When will we be able to spend all the interest on accumulated balances of the Highway and Aviation Treasury Department?

Ms. MOORE. Okay. Let's talk about the highway trust fund and let's talk about aviation.

This year we are spending, roughly, half of the interest generated by the cash balance, if you will.

So in certain years—may I introduce another visual, sir?

The outlays versus cash receipts (insert chart). In certain years the government has been able to spend more than was collected in outlays—excuse me—in tax receipts. In certain other years it has spent less than what was collected in tax receipts.


HIGHWAY TRUST FUND -- HIGHWAY ACCOUNT
CUMULATIVE TAXES AND OUTLAYS
$ BILLIONS
240
220
200
180
160
140
120
100
80
60
40
20
0
1956 1958 1960 1962 1964 1966 1968 1970 1972 1974 1976 TQ 1978 1980 1982 1984 1986 1988 1990
FISCAL YEARS
TAXES
OUTLAYS

In the past several years it has varied as to whether we were spending a portion of the interest or not.

You are asking for a forecast, something that is beyond my power to reach.

Mr. ANDERSON. Based on recent news reports, taxes may be raised to help reduce the deficit. What is the department's position on raising the gasoline tax to reduce the deficit?

You would be hitting the poor guy going to work every day who paid what tax he was supposed to pay. Yet at the same time we all know some of the biggest companies and the richest people in the country are not paying taxes.

Now we are going to tax the poor guy who has to go to work every day to pay us. What is your position?

Ms. MOORE. The Secretary addressed that question and has stated his objection to raising gas taxes to deal exclusively with the deficit. In fact, he wrote to the Governors and raised that concern about the working individual and the gas tax that person pays.

Mr. MCEWEN. If my wife and I are spending too much and my son has a lawn-mowing job and I come home and say, fine, you are raising money from your lawn-mowing. You can't spend that money because we are going in the red around here and we are going to cut spending.

He says I earned it. It is my money. It doesn't have anything to do with you. Yes, but we are concerned about controlling spending. You are going to spend it on—you are going to get a can of coke with it? You are going to repair your bicycle. We are all under the same roof. It is not fair and it is not right.

Now, here are people who buy gasoline, put it in a trust fund and want to use it. Joe Smoe comes down here from the Appropriations Committee and says we are concerned about the deficit. We have got to back up the money over here in the trust fund. It is a non sequitur. It is unfair and illogical.

And I would hope that if you want to say, look, we are interested in stealing money from anyplace we can find it, say that. But don't say that somehow or another it is fair or equitable to take money from a fund—the fact of the matter is that we permit spending and refuse to cut programs that are funded out of the general fund.

We allow them to continue to grow because of what we are doing with the trust fund. By holding back monies in the trust fund, we allow monies over here that are fed from the general revenue fund, allowing them to continue to spend at a greater level.

That is not right. If we are concerned about balancing the budget, then we have got to control the spending. We need to put Byrd and Rostenkowski provisions on the entire budget. That is that you can't commit more than the money that is coming in. We already have that in our trust funds.

We continue to put it in red if we trade. Prohibitions are there. So, therefore, backing up money more and more in the trust funds year after year is not a fair and equitable solution to the deficit problem.

You may wish to respond.

Ms. MOORE. Well, a couple of points. One is that point you made about whether we should control the general revenue spending to

provide for a more aggressive spending program from the trust funds.

I would submit that those are decisions that we do have to have explicitly in that budget process. Those decisions need to be dealt with explicitly. Therefore, definitely those questions should be decked on an annual basis, because that is the way we make appropriations, to deal with that. If we do not we have one less tool for addressing the issue that we all care about, which is that deficit, that deficit is genuinely there. Call it any name we like. It has genuine impacts on the economy.

Mr. MCEWEN. It has genuine impacts on the economy?

Ms. MOORE. The difference between the spending and the revenues of the budget.

Mr. MCEWEN. When Lyndon Johnson threw all these in there, it was immoral, improper, unwise to do it in the first place. The only thing worse than doing that is attempting year after year to justify it. Now we are up to 20 years of this charade.

Somebody ought to just fes up and say, no. It was a nasty little political trick they did one year, and we are going to try to get ourselves out of it, and we appreciate your help. But to try to take a moral high ground for something that is not right is not proper.

Ms. MOORE. I just want to make one other point. Again, this issue of the trust fund spending versus the general revenue spending. FAA has been indeed the beneficiary of the very phenomenon you are talking about, which is, you know, trust fund spending has been held back. General revenues have been appropriated in growing numbers to deal with the fact that the trust fund wasn't spent. That is why we have a 57 percent average for trust fund support of FAA's budget as opposed to a 70 percent. I am with you in the sense of let's get this kind of approach straightened out a bit.

It is relevant, I think, for FAA. It is relevant for UMTA. Then we can differ a little bit on the highway account where it is a question of how leveraged do we want that cash balance to be? How large should the commitments there be in relation to spending.

I share your frustration.

Mr. MCEWEN. You have presented a totally unjustifiable position very well.

Ms. MOORE. Thank you, sir.

Mr. MCEWEN. Let me say finally that you do think that Congress is willing to support more taxes with no assurances that this money will be used for the——

Ms. MOORE. I think when you look at the political landscape, I think all of us know that taxpayers are leery of supporting tax increases without a clear concept of how that money is going to be spent, its purpose, or that it will be spent.

I think that is our responsibility, indeed, to lay out the plan and lay out the connections and have a clear rationale for spending and for programs. Otherwise, without that, it is very politically difficult.

Mr. MCEWEN. Let me hit it again. Do you think that Congress would support higher gas taxes with no assurances of greater access to trust funds to use the balances for highways in the next decade?

Ms. MOORE. That is very problematic if they didn't have assurances.

Mr. BORSKI. GAO said this morning there was a $3.4 billion that we could spend for a one-time authorization. Do you disagree with that?

Ms. MOORE. Which account?

Mr. BORSKI. Highway.

Ms. MOORE. That there is a what?

Mr. BORSKI. $3.4 billion surplus in addition to a cushion that we could spend in a one-time authorization.

Ms. MOORE. Let me make sure I have got the question. Actually, I would love to get Mr. McCormick's help on that. If I understand your question, it relates to something that indeed the law permits us to commit, make commitments in excess of a current year's revenue, allows us to be in a situation where we have commitments that we still need two years of taxes to support.

I am trying to link into that 3.4 statement that you are making.

Mr. BORSKI. GAO today, this morning in earlier testimony, said there was a tremendous surplus; that we could spend at least $3.4 billion without touching that additional $3 million cushion.

Ms. MOORE. I think indeed we are both agreed that one could be spending money to about that level. But, I caution against using the word, "surplus," in the context of the highway account because the commitments are in excess of the balance.

Mr. BORSKI. If Congress wanted to spend an additional $3.4 billion this year, you would agree with that?

Ms. MOORE. Well, let us just say that we would have concerns about the deficit impact of that.

Mr. BORSKI. So that you believe that the trust fund, the amount of money that people who drive, who pay to be used in highways and mass transit should be used against the federal deficit and not for its intended purpose?

Ms. MOORE. I am not saying that money should be used for any other purpose. I am saying as we spend that money we need to take a look at the priorities in a given year, recognizing that that money is for transportation purposes. I am not suggesting we take that money away from those precious transportation accounts.

Mr. BORSKI. You are suggesting that we don't use it so that the deficit appears better than it really is.

Ms. MOORE. I am proposing that we do spend the money that we collect in gas taxes that is dedicated to highways. I am suggesting that we do need to deal with the surplus in the mass transit account, so that money can be expended for its intended purpose.

We need to deal with that in the authorization because the money being collected in the mass transit account is more than has been authorized. And then in aviation, we have talked about that. I will pause on that.

Mr. BORSKI. You raised the question somewhere in your testimony about the deficit and about how we had interest that we really couldn't receive because of the Federal deficit.

Ms. MOORE. Right, I did make that point; that the interest that accrues to the trust funds, which is indeed the reason we have the cash balance in, for example, the Highway Trust Fund, even though highway trust fund spending has outstripped the gas taxes

collected since the beginning, we still have a balance because of the interest—yes.

Mr. BORSKI. I suggest that we basically disagree that you are calling interest something separate completely. I consider it part of the Highway Trust Fund.

Ms. MOORE. I am not saying it is not part of the Highway Trust Fund. I am pointing out that as it accrues, it is true that it doesn't contribute to the deficit as it accrues to the highway account.

Once we do spend it, it contributes to the deficit, and we have to take that into account as we decide that spending level.

Mr. BORSKI. You say in your report that we are spending more money on the Highway Trust Fund than we are taking new revenues?

Ms. MOORE. No, sir, than we are collecting in gas taxes, sir.

Mr. BORSKI. Do you count interest in that?

Ms. MOORE. When I make that statement, I am not counting interest. That is why I say gas taxes.

Mr. BORSKI. If we include interest, are we spending more or less?

Ms. MOORE. I know in our President's budget for 1991 our proposal is that we would spend more than will be collected in gas taxes, but not fully what we are collecting in interest that year. In 1991 we propose to spend about a third of the interest.

Mr. BORSKI. Let me try it one more way. If you count all the money that should be credited to the Highway Trust Fund, including interest, you are making a strong point that we are spending more than we are actually taking in. I disagree with that if you count in interest, and interest is part of the Highway Trust Fund.

Are we spending more or less than what we are taking in? Are we creating a surplus?

Ms. MOORE. Are we creating a surplus in the highway account?

Mr. BORSKI. Counting interest.

Ms. MOORE. There are two meanings of "surplus" here. I want to be really clear. There is the flow issue about what we are doing to the deficit, and then there is this question of surplus in the highway account. We have the cash balance, which is not a surplus, in the highway account.

The balance is there because we have not fully spent the interest. Does that help you?

Mr. BORSKI. Mr. McCormick.

Mr. MCCORMICK. I go back to the 1991 budget question. I think the answer was clear at the end. The proposal was to spend one-third of the interest. Over the long-term we have been spending more on highways than the actual current revenue, excluding interest.

That is basically the message we have been trying to say. It is true, as you have seen on the graphs, that the balances remain basically the same level over the last ten years. Our goal and our effort, and I believe the reauthorization bill the department has put forward in terms of the airport program exemplifies this is mandatory full utilization of the user fee concept and the trust fund concept.

We certainly must look at the highway account in light of the overall deficit, and we are looking for opportunities to bring those two objectives together. In terms of restoring the credibility of the

Highway Trust Fund, which we heard about in much testimony this morning, and balancing that in the light of reality of the overall deficit, that is a difficult balance.

Mr. BORSKI. Why can't we spend the interest? Why is that a separate accounting maneuver? If you add interest to the amount of money we are taking in, I would suggest that we probably are not spending as much as we have. That is creating a budget surplus. When can we spend the interest?

Mr. MCCORMICK. Maybe I can use as an example the airport legislation—I want to use that as an example because reauthorization is on the table this year in terms of the airport program. We are looking at that question in the light of our reauthorization effort towards the transit and highway programs next year.

We are looking at the credibility of the Highway Trust Fund, maximizing the expenditure of user fee revenues and interest for the program objectives and balancing that against the overall budget difficulty, if you will.

I cannot predict at this point whether or not we may be ultimately successful in that regard. That is clearly our goal.

Mr. BORSKI. Ms. Moore, one other question. I want to move over to the mass transit account for a minute. You are suggesting there is money in there. What do we call that?

Ms. MOORE. Uncommitted balance, sir.

Mr. BORSKI. All right.

Ms. MOORE. Known in the vernacular by many as a surplus.

Mr. BORSKI. Why can't we spend that?

Ms. MOORE. There are a couple of issues there. One is that the authorization levels that were created in the authorization act are less than the tax receipts generated by that one cent allocation for UMTA. So that is a key issue as far as being able to get to that surplus.

Mr. BORSKI. If Congress would authorize the spending of those monies, we could do that?

Ms. MOORE. That would be part of it. The other key would be, I think, to consider the very basic question that I raised earlier, which is, in the Congress' and the executive branch's view, what is the proper percentage of urban mass transit spending that should come from that one penny.

Right now, less than half of the budget comes from the trust fund. And the rest is general revenues. What portion should come from the trust fund? If you model along the highways 100 percent out of the trust fund, for example, that would be one assumption.

That plays out one scenario. If you come up with a different assumption, that has implications for what the authorized spending should be out of the trust fund. Those are questions we do need to come to grips with.

Mr. BORSKI. It was my understanding when the Act was passed the one cent was to be additional money, not in place of general funds?

Ms. MOORE. I have to go back in my history book for that. I don't know the answer to that myself.

Mr. BORSKI. Thank you.

Mr. ANDERSON. Mr. DeFazio.

Mr. DEFAZIO. If the problem is the authorization, would the administration support a higher authorization on mass transit?

Ms. MOORE. The question of what authorization funding levels we would support is something we are grappling with now, Mr. DeFazio. As we work on that, as we present our proposals to you, I would be in a much better position——

Mr. DEFAZIO. We would invite you to submit a higher authorization and receive it warmly, I believe.

Ms. MOORE. To help us as we plan, would you like to see a higher percentage of UMTA funding come from the trust fund?

Mr. DEFAZIO. It depends upon—there is a lot of questions that would follow from that question. What is the amount of funding?

What are the other sources? Are you holding other sources in the proportionate share, et cetera. I mean, I would like to see higher levels of spending over all. Now—and I won't want to see it come totally from, necessarily from trust funds and decrease the other efforts if that is what you are asking.

I would like to see a maintenance of effort in the other shares and increase in trust fund authorization, ideally seeing both go up.

Ms. MOORE. You won't want to see a decline in the general revenue support?

Mr. DEFAZIO. No, all we do is spend a higher proportion of the trust funds, which leads me to the FAA. Tell me about the methodology, how we came up to this 85/15 split in the FAA with respect to public benefits are 85 percent and the military is 15.

Ms. MOORE. Yes, OK, and then I am going to turn to Mike Moffet, if I could, from the FAA to say a few words.

Mr. DEFAZIO. Let's keep it short.

Ms. MOORE. The balance between——

Mr. DEFAZIO. In the air, amount of air space used, number of passengers carried, amount of freight carried, tonnage, what is the measure readings?

Mr. MOFFET. We look at detailed capital projects, all the money spent on the aviation system. Then we determine whether or not those costs are captured by specific users. And what the cost allocation study shows is approximately 99 percent of all the costs are captured by system users.

Of that, 15 percent of the total 100 percent are government users, basically military and other users.

Mr. DEFAZIO. Under what measure?

Mr. MOFFET. I will have to give you that for the record.

Mr. DEFAZIO. I would be very interested.

[The information received from Mr. Moffet follows:]

Question. What procedures were used to derive the 85 percent private sector user cost responsibility estimate?

Answer. The Federal Aviation Administration (FAA) estimates that 85 percent of its costs arise from services provided to private sector users. This estimate is based on an allocation of FAA direct and indirect costs to public and private sector system users. The most recent 1985 cost allocation study recognizes ten user class categories and the general public interest.

Direct costs are allocated to users by the concept of avoidable costs. These are defined as the costs that would be avoided by the FAA if a user group discontinued its use of all or part of the FAA airport and airway system. Included in avoidable costs are both variable and other costs attributable to a user group's consumption of FAA services.

In general, the avoidable cost concept is applied in two ways. First, those cost categories which vary directly with output—operating costs of ARTCC's, FSS's, TRACON's, and towers—are evaluated utilizing econometic cost functions. Second, other cost categories in the FAA budget are examined to determine whether they could be avoided if one or a limited number of user groups ceased to consume FAA services. Including are such categories as F&E, R&D, and airport grants. If the cost could be avoided in the absence of one user group, it is assigned to that group. If the cost could be avoided only in the absence of two or more groups, it is assigned to a temporary category which was then reallocated to the final user groups using Ramsey pricing techniques.

FAA indirect or overhead costs are first allocated to FAA direct cost categories using cost accounting methods. These costs, once assigned to direct cost categories, are allocated to ultimate users as are direct costs as directed above.

A detailed explanation of the techniques employed is contained in FAA Report Number FAA-APO-87-11, "Allocation of Federal Airport and Airway Costs for FY 1985."

Mr. DEFAZIO. I would be very interested in the methodology and how we—and if indeed the military is responsible for 15 percent, then perhaps we should charge the military for that 15 percent and it should come directly out of DOD's funds instead of out of the general fund.

The general public is paying. Now in my district we don't care much about that 15 percent that goes to military, nor do a lot of other districts. We would say the military should take it out of their budget instead of us paying for it in general funds.

I don't agree with your basic methodology, but if you want to be consistent, let's be consistent. If you are going to build the flying public into the freight carriers, then let's build whomever else benefits directly, which is the military.

Ms. MOORE. Which is supported by general revenue.

Mr. DEFAZIO. Let's take it out of their budget. Why are we subsidizing them in the FAA budget? It is general funds. I think we have a problem there. I would go further and say the methodology—first, will 85/15 warrant some examination? Second, I would question this idea that an efficient air transportation system benefits only accrue directly to a narrow category of users, i.e., those who fly individually as passengers, those who fly freight companies, those who fly planes who carry passengers as opposed to the general public because we have had earlier discussion and testimony in this committee.

Every small community in America looks at their local airport as the key to their economic development diversification. They certainly look at it as something more than something not of which people, you know, who get on those planes should pay. They think that some general benefit accrues to the community in terms of commerce.

All the past studies I have read having to do with infrastructure say that infrastructure as provided by government is of enormous benefit to the business community in general, not just to those particularly dependent upon one mode of transportation or another or infrastructure.

Ms. MOORE. Surely. I would submit the benefits are captured. If there is a local airport that provides faster direct delivery and products to that community, they are paying lower costs for those products and services. The transportation of those products is captured in the basic price.

That price is lower, and people locally are capturing those benefits in the lower prices they pay or in the jobs that are generated. They are paying for them or not, depending on the level of benefit.

Mr. DEFAZIO. Then we bring in multipliers and other things. I question again the attribution there in whether or not we should assess 85 percent to the trust fund. Let's move on from there. Since we were delivered a lecture, I was intrigued to hear what caused the stock market crash, but where are we ranked world-wide percent of GNP invested per capita in transportation?

Do you have any idea in, say, just take 100 nations. Where do we fall in that hundred? Where do you think?

Ms. MOORE. That is a very good question, and I don't know the answer, sir.

Mr. DEFAZIO. Okay, well, we are 55. That is not too good. We are somewhere down there competing with Zimbabwe, Uganda and some of the other economic giants of the world in terms of percentage GNP invested in infrastructure.

You apparently worked in the Reagan White House. I assume you are familiar with the report, which was generated under Mr. Reagan' administration regarding the infrastructure needs of the nation.

Ms. MOORE. The highway needs report?

Mr. DEFAZIO. It was an infrastructure report. They point to the existing trust funds and methods of financing and found we were more than 50 percent deficit for the projected needs over the next 25 years in terms of all infrastructure, i.e. mass transit, bridges, highways, airports, water, and sewer.

It was beyond transportation outside your department. I don't know how the proposals of the administration address that more than 50 percent deficit. I don't know that we are getting at that with the exception of levying higher feels on users in aviation and PFC's.

Ms. MOORE. Well, I would say a journey of 1,000 miles begins with one small step. The FAA authorization is here today. We have developed a five-year program that does call for increases to the tune of 73 percent over the next five years.

Indeed we feel that increased user fees are needed to support that and therefore we are asking for your assistance in that. Indeed the PFC's you mentioned are another way to channel dollars into the aviation industry needs we see.

We are hard at work on the question of highways and mass transit for the next five years. I think the Secretary initiated the effort for a National Transportation Policy because he wanted to do several things.

One is to indeed provide a framework for implementation and follow up and secondly to raise the national consciousness to these needs, Mr. DeFazio, that you point out.

Mr. DEFAZIO. The consciousness is raised. My state has raised the gas tax three times in the last five years. My question, since we have a couple of economists and I guess that is your background, what is the difference on the economy of a tax levy on gasoline at the state level versus the federal level? Is it significantly different?

Ms. MOORE. There are a couple of things I would say about that. One is that at the state level there is going to be more control de-

rived locally over how that money is spent. Certainly, we in the Federal Government want to create a balancing act and minimize the burdens on the States of spending the federal dollars and at the same time assure certain goals are met with respect to the environment, et cetera.

In certain instances you can more cost effectively undertake a project if there are no federal strings attached to the money so that there may be some—I don't have the numbers to support this in front of me—so that there is merit in a state approach.

Mr. DEFAZIO. We are talking about the maintenance of the highway system which we built essentially with federal dollars. Now we are going to say although this system was authorized starting with a good Republican President and we constructed it, now basically it is yours and we should now begin to raise the effort at the local level?

Let's go on because we don't have much time. We heard a good deal, we had a lecture about reducing the deficit. I heartily agree. Now tell me this: If we spend a dollar in the trust fund or $1 billion in the trust fund generally we get concrete on the ground, correct, and life span is assumed to be more than one year.

Ms. MOORE. Of the created object, yes, sir.

Mr. DEFAZIO. Good. Since we went through a philosophical discussion of the budget, and a lecture, my question is what provides more benefit to the taxpayers, $1 billion in the Highway Trust Fund or $1 billion in foreign aid? What aids our international competitiveness, $1 billion in the Highway Trust Fund or $1 billion in the savings and loan bailout. You want to say they are all one in the same and creating deficit.

The question is, if you create deficit with a real product that contributes to the infrastructure that might move us from 55th in the world to maybe 49th and we start competing with El Salvador and move up, I think that will benefit the nation more than dollars spent elsewhere. I think the monies should be treated differently.

One is an investment with a life span and the other is a one-time expenditure in the case of savings and loans for money spent on God knows what, and in the case of foreign aid, that is another thing altogether. I have a problem with the beginning point from which it started. I guess it is not a question but more an observation.

Think about that before you come back to the committee again and see if you can figure out a little better argument. I don't think that goes to the nub of the problem here and the nub of the benefits. I think the trust fund should be handled in a very different manner. You look at accounting practices followed by business. There is a big difference between a capital expenditure and how it is amortized and where the debt load is incurred and what it means in the profit and loss of that company, versus a one-time billion dollar expenditure for something we never see any benefit for. That is just my observation.

Thank you, Mr. Chairman.

Mr. ANDERSON. We do have to go vote. Following the vote will be a suspension to suspend the rules and following that another vote. I am not sure when we will be back. I think this panel is finished. Following you we have another panel of about eight people. I

cannot give you the exact time. But we will go vote and get as quickly as possible.

Mr. ANDERSON. Our final panel today consists of Mr. Robert Desjardins, Senior Vice President of the Cianbro Corporation representing the Association of General Contractors, Mr. James Anderson from the Anderson Brothers Company representing Associated Builders and Contractors, Mr. T. Peter Ruane, President, American Road and Transportation Builders Association, Mr. Steven J. Brown, Vice President, Strategic Planning and Policy, Aircraft Owners and Pilots Association, Mr. Larry Barnett, Vice President, Government Affairs, Air Transport Association, Mr. Robert Wigington, Senior Vice President, Government and Economic Affairs, Airport Operators Council International, Mr. Mortimer L. Downey, III, Chairman, Federal Tax Policies Subcommittee and Metropolitan Transportation Authority, American Public Transit Association, and Mr. William W. Millar, Chairman, Federal Procedures and Regulations Subcommittee and Executive Director, Port Authority of Allegheny County.

Mr. Desjardins.

[Recess.]

[Ms. Moore's prepared statement appears on page 176.]

Mr. ANDERSON. Would you please rise and raise your right hands?

[Witnesses sworn.]

TESTIMONY OF ROBERT DESJARDINS, SENIOR VICE PRESIDENT, CIANBRO CORP., REPRESENTING ASSOCIATED GENERAL CONTRACTORS; JAMES ANDERSON, PRESIDENT, ANDERSON BROTHERS CO., REPRESENTING ASSOCIATED BUILDERS AND CONTRACTORS; T. PETER RUANE, PRESIDENT, AMERICAN ROAD AND TRANSPORTATION BUILDERS ASSOCIATION; STEVEN J. BROWN, VICE PRESIDENT, STRATEGIC PLANNING AND POLICY, AIRCRAFT OWNERS AND PILOTS ASSOCIATION; LARRY BARNETT, VICE PRESIDENT, GOVERNMENT AFFAIRS, AIR TRANSPORT ASSOCIATION; ROBERT WIGINGTON, SENIOR VICE PRESIDENT, GOVERNMENT AND ECONOMIC AFFAIRS, AIRPORT OPERATORS COUNCIL INTERNATIONAL; MORTIMER L. DOWNEY, III, CHAIRMAN, FEDERAL TAX POLICIES SUBCOMMITTEE AND METROPOLITAN TRANSPORTATION AUTHORITY, AMERICAN PUBLIC TRANSIT ASSOCIATION, ACCOMPANIED BY WILLIAM W. MILLAR, CHAIRMAN, FEDERAL PROCEDURES AND REGULATIONS SUBCOMMITTEE AND EXECUTIVE DIRECTOR, PORT AUTHORITY OF ALLEGHENY COUNTY

Mr. DESJARDINS. Thank you, Mr. Chairman.

My name is Bob Desjardins. I am a contractor from Pittsfield, Maine. I am also this year's highway division vice chairman of the Associated General Contractors of America. AGC applauds this subcommittee for holding this important hearing on the nation's transportation trust funds. Adequate investment, supported by the highway and aviation trust funds, in our nation's transportation infrastructure is the foundation for continued economic prosperity and international competitiveness.

In the interest of time I will only summarize the written statement that has been presented.

AGC has heard the recent news that the Administration and the Congress are beginning serious discussions on addressing the budgetary gridlock plauguing this nation's economy and jeopardizing our global competitiveness.

In searching for a solution to the deficit, Congress and the Administration must not ignore a key element of that solution—investment in our nation's roads, bridges and airports—that will enable this country to reap economic growth and be competitive in a global environment. Otherwise, instead of increased productivity, we will spend more and more due to inefficiency and congestion, and risk tying up our nation's economic future in one vast, unproductive traffic jam.

No longer should there be debate over whether our transportation infrastructure needs rebuilding, or why it must be rebuilt. It must be rebuilt to preserve our nation's competitiveness and our citizen's quality of life.

It is now time to direct the debate to the important issue of what must be done to ensure that the transportation infrastructure is rebuilt.

AGC believes the following actions must be taken to ensure the rebuilding of America: the transportation trust funds must be removed from the unified federal budget, and their balances, must be fully expended. Comprehensive federal highway legislation must be enacted to significantly increase capital investment in the nation's highway and bridge programs, ensuring that every state shares in that increase. Currently there is $30 billion annual shortfall of investment in the nation's highway program.

The federal gasoline and diesel excise taxes must be preserved as dedicated highway user fees, and not used for any other purpose, such as deficit reduction.

The federal tax exemption for gasohol and other alternative fuels must be eliminated.

We commend the committee for holding this important hearing and we urge your active participation in budget negotiations to restore the public's trust in our nation's dedicated transportation trust funds.

Mr. ANDERSON. Next on the list is Mr. James Anderson.

Mr. JAMES ANDERSON. Good afternoon. My name is Jim Anderson and I am President of Anderson Brothers Company, a heavy highway contractor located in Brainerd, Minnesota, with operations in Minnesota and South Dakota. On behalf of the Associated Builders and Contractors, ABC, and as Chairman of the ABC Infrastructure Task Force, I appreciate this opportunity to testify on the benefits of taking the Highway Trust Fund off-budget.

Associated Builders and Contractors represents over 18,000 contractors, subcontractors, material suppliers and related firms from across the country and from all specialties in the construction industry. Our diverse membership is bound by a commitment to the merit shop—the most efficient construction technique in America. The merit shop philosophy of awarding construction contracts to the lowest responsible bidder, regardless of labor affiliation, through open and competitive bidding, assures taxpayers and con-

sumers the most value for their construction dollar. With 75 percent of construction today done by merit, open, shop contractors, ABC is proud to be their voice.

We commend Chairman Anderson, Congressman McEwen and members of the Subcommittee on Investigations and Oversight for bringing this most important issue to the forefront.

The deteriorating condition of our nation's surface transportation system has been well documented as well as the need for increased investment from all sectors of the economy both public and private.

The question that remains unanswered is how to finance desperately needed road and bridge improvements and fund new projects that will alleviate urban congestion and improve rural access. The time has come to make some hard choices and the place to start is with the Highway Trust fund.

As you are all aware, the Highway Trust Fund was established in 1956 to create a self sustaining and stable revenue source, wholly separate from general revenue, that would be needed to develop a national highway system. This pay-as-you-go program is based on two important premises which in themselves justify removing the Highway Trust Fund from calculations under the Unified Federal Budget.

First and foremost, the user fees collected are dedicated solely to financing the Federal-aid highway program—with a small portion more recently dedicated to mass transit. This ensures the American people that each and every time they stop at the pump, their gas tax investment will be returned to them in better and safer roads and bridges.

The strong linkage between the gas tax, as a dedicated highway user fee, and the return on investment to highway users is integral to the success of the program. However, this trust is currently being violated by the billions of dollars held hostage in the Highway Trust Fund. Not only does this threaten the future viability of the highway program, but also threatens our productivity as a nation and our competitiveness in the global market.

Secondly, the program ensures that the government cannot spend more than it takes in through a deficit control mechanism known as the Byrd Amendment. This amendment mandates that the total unpaid commitments against the highway account at the end of the fiscal year do not exceed the end-of-year balance plus projected revenues for the next two fiscal years.

The solvency of the trust fund is further assured by the fact that the user tax is authorized for two years after the authorization of any allocations. The Surface Transportation and Uniform Relocation Assistance Act passed in 1987 authorized highway programs to be funded through 1991 and, at the same time, authorized the tax to be collected through the end of the fiscal year in 1993.

The Highway Trust Fund is totally and completely financed by highway users and does not contribute to the deficit, yet trust fund surplus amounts are included in the totals of the Unified Federal Budget. This serves only one purpose—to mask the size of the federal budget deficit.

The current balance in the Highway Trust fund is $10.6 billion. This translates into an estimated surplus of nearly $8 billion over and above the built-in protection of they Byrd Amendment require-

ments. This surplus is totally unnecessary and, considering the current state of our transportation infrastructure, can no longer be accepted. A cushion of $1 to $3 billion would be more than ample to cover any bills that may come due prematurely and allow for increased spending without increased taxes.

Inclusion of the Highway Trust Fund in the Unified Federal Budget subjects highway programs to arbitrary expenditure ceilings which prevents millions of dollars from going to every state in the union. For example, California currently has an unobligated balance of $821 million which only $182 million remaining before they reach their obligation limit for fiscal year 1990. Therefore, California is precluded from spending $6,349 million of their apportionment. Similarly, Ohio is prevented from spending $274 million this fiscal year.

It is important to note that taking the trust fund off-budget does not remove the funds from under the budget/appropriation process. It would, however, remove the incentive to place low obligation ceilings for the purpose of reducing the size of the federal deficit and free up funds desperately needed to meet the needs of our increasingly burdened transportation system.

Not only are trust fund monies subject to arbitrary obligation ceilings, but also to Gramm-Rudman-Hollings spending cuts—even though the trust fund is a stand-alone fund that does not contribute to the deficit. With the current federal budget having to be reduced by nearly $40 billion to meet Gramm-Rudman deficit reduction targets, once again the Highway Trust Fund is subject to intrusion.

While ABC understands the severity of the deficit situation and supports deficit reduction as a top priority, the investment in transportation infrastructure required to sustain our nation cannot be sacrificed in the process.

ABC applauds Congressman McEwen for introducing H.R. 286, the Infrastructure Protection Act of 1989, which provides that receipts and disbursements of transportation trust funds shall not be included in the totals of the Unified Federal Budget. We also would like to thank the many members of the Public Works Committee that have co-sponsored this legislation and encourage their continued efforts in this regard.

We are heartened by similar efforts to move the Social Security Trust Fund from federal budget calculations and recent comments by Majority Leader Richard Gephardt and Minority Whip Newt Gingrich in support of the same treatment for the transportation trust funds.

Before I conclude my remarks, a discussion about the Highway Trust Fund would not be complete unless I mentioned a number of other relevant concerns ABC has regarding the trust fund.

Currently, gasohol receives a six-cent exemption from the nine cent excise tax on motor fuel. This exemption is an unnecessary drain on the Highway Trust Fund. In 1988 alone, the gasohol exemption cost the Highway Trust Fund over $470 million in gas tax revenue and diverted an additional $160 million from state and local transportation needs. While ABC supports alternative fuels that are cost effective and environmentally sound, we do not believe the highway program should bear the brunt of a subsidized

alternative fuels program. A vehicle powered by gasohol contributes equally to road wear and tear, but only pays a third of the federal fuel tax. We are simply asking that all highway users pay their fair share.

Additionally, Clear Air legislation moving through Congress that mandates the use of oxygenated fuels without simultaneously repealing the six cent exemption provided ethanol fuels, will have a serious impact on Highway Trust Fund revenue.

The Clean Air Act Amendments of 1989, as passed by the Senate, contains a provision requiring that fuel sold during winter months in the 44 serious carbon monoxide non-attainment areas must contain a 3.1 oxygen level. This is effectively an ethanol mandate and is estimated to cost the Highway Trust Fund at least $1.1 billion in annual revenue. An oxygenated fuels program with an oxygen content requirement of 2.7 or lower, as required in the House bill, would allow for the use of non-exempt blends, provide 80 percent of the air quality benefits attributed to ethanol and not cripple the trust fund.

And lastly, the federal tax on motor fuels must be preserved as a dedicated highway user fee. Any federal fuels tax hike for deficit reduction threatens our nation's highway program. A federal tax on gasoline for deficit reduction purposed would divert billions of dollars annually that should be dedicated to improving the dangerous condition of our roads and bridges, and would derail many state initiatives for increased funding for state highway improvement programs.

The Highway Trust Fund has not only been a vital tool in laying the basic foundation of our nation's highway system, but has paved the way for our growth and prosperity. Today we face a whole new series of challenges. Our ability to compete in a global economy is becoming increasingly more important and will depend on a safe and reliable transportation system. We must rebuild, reinvigorate, streamline. We can start by taking the transportation trust funds off-budget.

On behalf of the Associated Builders and Contractors, I again want to thank the Subcommittee on Investigations and Oversight for the opportunity to be here today. I will be happy to answer any questions you may have.

Mr. ANDERSON. Thank you.

Mr. Ruane.

Mr. RUANE. Mr. Chairman, Pete Ruane, president and CEO of the American Road and Transportation Builders Association, which is based here in Washington, DC. I am pleased to present testimony on behalf of the association's nearly 4,000 members nationwide on the status of the Highway Trust Fund and other transportation-related trust funds.

I will summarize our remarks and present our statement for the record. Despite all the obfuscation and budget jargon you heard all day I think the main point here is that there are additional resources available to increase transportation spending and I will be talking about those today.

We are pleased to see that all members of the committee have lent their support to legislation that has been introduced, H.R. 286. I would like to report, Mr. Chairman, that the American Road

Transportation Builders Association along with some 26 other organizations is lending its support to that bill introduced by Mr. McEwen. We also note that Majority Leader Gephardt and Minority Whip Gingrich earlier this year joined you in publicly stating their interest and support to get the transportation trust funds off-budget when the Congress votes on transportation issues.

In our statement we addressed some capital budgeting ideas which others have commented on today. We believe as many members of this committee also believe, that there is a built in budget bias against capital investments. As you know only too well, all spending is not the same.

I noted with interest a few minutes ago Mr. Borski's comments to the GAO witness in the May 1989 GAO report which indicated when you clear out all the falderal that there are resources in the order of $6 to $7 billion, available to increase spending right now.

My organization is also on record calling for the trust fund to be made permanent. We also know, as one of the committee members has observed, that recently the Senate Appropriations Committee adopted an amendment dealing with the Resolution Trust Corporation to take their working capital actions off-budget and used the rationale, "this was mainly because working capital was viewed over the long term as not having any effect on the deficit."

We believe the same kind of arguments apply to the transportation trust funds and various programs we all represent here today.

Again, Mr. Chairman and Mr. McEwen, we appreciate the opportunity to join you today and pledge our support along with the other trade organizations including the two earlier witnesses who have also joined this broad-based coalition to ensure the transportation trust funds received adequate attention this Congress and there is a vote to take them off-budget.

Thank you, very much.

Mr. ANDERSON. Thank you.

Mr. Brown.

Mr. BROWN. Thank you. My name is Steve J. Brown, and I am Vice President for Strategic Planning and Policy for the Aircraft Onwers and Pilots Association.

AOPA represent the interests of over 300,000 individual members who own and fly general aviation aircraft to fulfill their personal and business transportation needs. We appreciate this opportunity to comment on the current status of the Airport and Airway Trust Fund.

Our testimony today focuses on two questions. First, whether the Aviation Trust Fund should be removed from the federal budget. Second, what level of support, if any, for FAA operations is appropriate from the Airport and Airways Trust Fund. This is a key issue in the reauthorization debate, as it has been since the Trust Fund was first established.

In contrast to Ms. Moore, I could say yes for number one and no for number two, but I will give you some justifications for our positions. Surely the Aviation Trust Fund should be removed from the federal budget. The federal dollars have been held hostage to mask the true size of the federal deficit.

We believe these funds should be applied for their intended purpose. Clearly Congress has laid that out in its repetitive action on

the legislation and that is for clearly capital investment purposes to build additional capacity for aviation in this country.

Clearly, our membership would favor taking the trust funds off-budget and have those funds applied directly for capital programs as we believe has always been intended by this legislation.

Secondly, on the potential increase in operations funding for FAA that would flow from the trust fund, we oppose any increase in operations funding coming from the trust fund. We believe fundamentally the level of proper funding for operations of the trust fund has been set by Congress as it has reviewed and renewed the legislation.

In spite of our ability to try to come up with a viable alternative to meet this question of what to do with FAA operations level funding, we believe that essentially the status quo should be reinstituted.

In fact somewhere around the 50 percent level that is currently flowing into the FAA operations account from the trust fund is approximately the correct level when you consider that full funding for the capital programs comes from the trust fund and when you take into consideration the public benefits that accrue to the nation at large from having a national aviation infrastructure.

So status quo on the second point, Mr. Chairman, I think. Basically we believe and we have laid out in our statement which we obviously submitted for the record, public benefits are numerous and we have enumerated them. Having an aviation infrastructure is vital to the national interest. It far exceeds the 15 percent that only accrues to the military.

In summary, our members feel there should be no new taxes when there is a surplus in the trust fund. We believe there should be no increased diversion of those funds for operations funding. We believe that the funds that go from the trust fund must always be used for the principle that they were originally intended, that is capital investment.

Like the other members of the panel, Mr. Chairman, I look forward to your questions after our testimony.

Mr. ANDERSON. Thank you, Mr. Brown.

Mr. Larry Barnett.

Mr. BARNETT. Thank you, Mr. Chairman. My name is Larry Barnett. I am Vice President for Government Affairs of the Air Transport Association of America, which represents U.S. scheduled airlines. I appreciate the opportunity to appear before you today to relate the views of the airline industry on the budgetary treatment of the Aviation Trust Fund, particularly the Aviation Trust Fund.

Certainly the views I have heard expressed by you and other members of the committee are gratifying to us. As you know we have joined with you and others in recent years to mount efforts to seek meaningful budget reform to free up the trust funds.

We keep getting closer to success so we are going to keep fighting. I will summarize my statement and ask that you insert the full text in the record. I will break my summary into three parts, the problem, solution, and the benefits.

The problem is that air travel is growing enormously. We are still confronting antiquated unreliable equipment in the air traffic control system. There is a backlog of essential airport projects

going unfunded. Since 1982, $31 billion has gone into the trust fund and only $19 billion has been spent for capital improvement projects.

At the same time airline users have paid billions of dollars in taxes that have contributed to the $7 billion unobligated surplus that is not being used to fix the problem. The Administration's capital funding requests in the last five years have been more than $3 billion short of congressional approved authorizations.

Not once in that five years except for one program, has the Administration Budget requested spending at the level authorized by Congress. Like others on the panel, we think the solutions are fairly self evident. The aviation trust fund should be removed from the Unified Federal Budget. It should be freed from the constraints of the budget process. It should be freed from the shackles of Gramm-Rudman-Hollings. If our programs are free from spending limitations and artificial accounting pressures, we know that more than $26 billion in capital improvements can be undertaken over the next five years out of the trust fund.

The FAA budget could be increased from its present level of $7 billion annually to a range of $9 to $11 billion annually. One hundred percent of all capital programs could continue to be funded out of the trust fund. Nearly $12 billion could be spent to fund operations. Seventy-five percent of the total FAA budget could be funded out of the aviation trust fund.

All of that with no increase in taxes. That would still leave a trust fund surplus in the range of $2 billion at the end of five years.

The benefits are obvious, Mr. Chairman. Future needs of the system will be better accommodated. Those $3 billion in annual delays, inconvenience and related air travel costs can be avoided, or minimized; aviation system safety and efficiency will be improved and we can fix, once and for all, many of the long-standing problems in our system.

Mr. Chairman, that concludes my summary. I join with the others in thanking you for having this hearing and giving us an opportunity to share our views on what needs to be done to take care of our aviation system problems.

Mr. ANDERSON. Thank you, Mr. Barnett.

Next is Mr. Mortimer Downey.

Mr. DOWNEY. I think I will lead off.

Mr. ANDERSON. Fine.

Mr. DOWNEY. I am executive director of the MTA in New York. I am accompanied by Mr. Millar, who is executive director of the Port Authority of Allegheny County, Pittsburgh. We are appearing on behalf of the American Transit Association. We thank you for hearing us on the subject of the trust fund.

Our testimony discusses the importance of a substantial and predictable flow of gas tax monies for the transit program. We also want to state clearly our support for spending down the substantial balances in that fund. In previous testimony both before this committee and Ways and Means, APTA has expressed its support for a significant increase in the Federal motor fuels tax dedicated to the Federal transit program.

At the same time we strongly oppose any effort to use those fuel taxes for deficit reduction or other than transportation purposes.

With respect to the current situation in the trust fund, our analysis indicates that at least $3 billion is available for commitment to transit needs above and beyond the needs currently appropriated. There is a cash balance of slightly less than $7 billion in the mass transit account, of which about $4 billion has been obligated for future expenditure, but the balance, as a function of those amounts which were previously unauthorized and the normal rate of spending out on extensive projects, has grown up and could be used to meet urgent and immediate transit needs.

We would urge that Congress take steps both to authorize and release funds for transit, recognizing both the needs and benefits that exist. I would like Mr. Millar to say a few words about those important needs and benefits.

Mr. MILLAR. Thank you very much. I am William Millar, executive director of Port Authority, Allegheny County. As Mr. Downey said, there are certainly large needs in public transit. For example, there are some 27 projects in the formal alternatives analysis and preliminary engineering stages all across the country. There are some 31 additional cities that have begun the process of planning fixed guide rail systems.

In addition to this, these projects will total over $33 billion of investment in this country. In addition to this, using the administration's own figures, there is a need for at least $22 billion of reinvestment in the nation's existing urban rail transit systems.

Finally, using the administration's figures, there is a need over the next 10 years for an investment of at least $11 billion in the nation's bus systems. Add to this the requirements that were put into place by the AVA and the Clean Air Act when that passes, we will spend over $100 billion in mass transit over the next 10 years. The only way is to spend down the trust fund as a start.

However, that will simply not do it. We have to see a major increase in the user fees for highways, bridges and public transportation. We are advocating at least a 7 percent increase in the gas user fee just for transit alone, in addition to what is needed for the others. The bottom line for us is that the need is there, it is growing, the investment must be made. We must spend down the trust fund and we must increase the user fee and make it only for transportation purposes.

Thank you very much.

Mr. ANDERSON. Thank you.

Our next witness is Mr. Robert Wigington.

Mr. WIGINGTON. Thank you, Mr. Chairman. I will be brief and summarize my remarks and ask that the full statement be submitted for the record.

Mr. ANDERSON. All the statements will be made a part of the record.

Mr. WIGINGTON. I am Robert Wigington, Senior Vice President for Government and Economic Affairs for the Airport Operators Council International.

We appreciate the opportunity to discuss with you the airport and airway trust fund and the serious problems that prevent adequate funding for aviation capital improvement programs. We ap-

preciate your interest and Congressman McEwen's interest in trying to solve our problems.

The nation and air travelers are paying a high price for an underfunded and overcongested air transportation system, and delays cost passengers and airlines approximately $5 to $6 billion each year.

Since 1972 air passengers and other aviation users have paid $37.8 billion into the trust fund, while trust fund outlays have been $30.9 billion. That has certainly contributed to the huge surplus we see now in the aviation trust fund. In establishing the airport and airway trust fund, Congress clearly intended that the vast majority of the receipts collected would be used for capital development of the aviation system. However, the Federal investment in airports has not been nearly enough to keep pace with the demand for new and expanded facilities.

Since 1982, Federal funding for airports has fallen nearly $1.5 billion short of the authorized levels and has caused important airport capacity, safety, security and noise mitigation projects to be delayed or go unfunded. Presently, the FAA has a backlog of more than $7 billion in unfunded airport grant project applications—projects that are eligible and deserving of Federal assistance, but which cannot be funded given the limited Federal aid dollars made available.

The FAA's facilities and equipment program has been similarly underfunded.

Clearly, aviation users are not getting what they paid for. The trust fund and aviation users get IOU's from the Federal Government while congestion and delays mount, airport development projects are deferred or cancelled, and development needs and costs escalate.

It is an unfortunate fact that the Federal budget process is a much greater determinant of how much can be spent on airports and aviation than the level of needs or available trust fund monies. That was certainly not the intention of Congress when the trust fund was established.

Those arguing that the trust fund should have paid more of operations costs are simply ignoring the law and congressional intent governing the trust fund and its expenditures. Clearly more would have come out if the capital programs had been funded at higher levels. Clearly that was Congress's intent in establishing the limitations on the penalty clause, was to first and foremost make sure it worked for the capital programs.

We commend your efforts, Mr. Chairman, to try to do that and your other efforts to reform the budget process.

Simply taking it off budget will not solve the problem unless Gramm-Rudman-Hollings and the budget process itself are also reformed. There are a number of ideas and initiatives that we would encourage you to explore. Basically we think we need to find a way to overcome the current bias in the budget and appropriations process and the deficit calculations, the bias against spending on the aviation trust fund.

We also need to eliminate the present incentive Congress and the administration have to build up the trust fund surplus. This is necessary to give the trust fund a fresh start and relieve the current

budget and funding problems that we face. However, even reforming the budget process and taking the trust fund off budget, while that will help greatly to increase trust fund spending for aviation, it will not totally solve the problems and the funding needs for airports.

In the next five years airports are facing the need for about $50 billion in capital investment, an average of $10 billion per year. About 60 percent of that would be AIP eligible, about $6 billion a year. Clearly there is no way, given the current funding of the AIP program, that those needs could even be approached. That is why we believe that airports need additional funding sources and support Congress giving airports the right to impose passenger facility charges to raise the additional money in addition to a greater AIP program.

There are other options we would encourage you to explore, one is a proposal AOCI developed, to try to put the trust fund surplus to greater use by creating a revolving loan fund to provide capital airports could borrow to help meet the needs. This fund would eventually become self-sustaining and grow. We think it is worthy of consideration.

I will close with that and thank you again for the opportunity to be here, and look forward to answering any questions that you may have.

Mr. ANDERSON. Thank you very much. I think my first two questions will be directed to Mr. Millar and Mr. Downey.

First, how much more spending can the highway trust fund's transit account support per year?

Mr. DOWNEY. We have done an analysis of that. It would appear with the current balance in the fund and the revenues that come in, that somewhere between $2- and $3-billion a year could be drawn from the fund without exhausting its balance in the next five or six years.

Mr. ANDERSON. $2- to $3-billion a year?

Mr. DOWNEY. Yes, sir.

Mr. ANDERSON. Is there any reason, based on transportation needs, not to spend that available money?

Mr. MILLAR. Absolutely that money should be spent. There is not reason it should not be invested so we can get the benefits from it as soon as possible.

Mr. ANDERSON. I think my next question is directed to all of you. Do you think that we will ever be able to spend all of the interest and accumulated balances of the highway and aviation trust funds?

Mr. BARNETT. Mr. Chairman, I don't know whether we will be able to or not. We should continue trying to get our hands on that money. It represents taxes paid by users, a commitment made to users back in 1970. I think it is our responsibility collectively to see what we can do to get that money properly spent, because there is an enormous number of needs out there going unfunded in the system at this point.

Mr. ANDERSON. Mr. McEwen.

Mr. MCEWEN. Your testimony has been very helpful. Have any of you done any econometric studies as to what the return to the economy would be from improved infrastructure and additions to infrastructure?

Mr. DOWNEY. We have not done these ourselves but I would draw to the committee's attention the work that has been done at the Chicago Federal Reserve Bank and the Boston Federal Reserve Bank. In both cases the economists there have drawn very interesting parallels between the rate of investment in the infrastructure and the rate at which private industry is able to improve productivity and improve economic growth, the support given by these public investments is really critical to the economy as a whole.

Mr. MILLAR. If I may add, the studies APTA has done show clearly that a dollar invested in transit construction generates about $3.25 in private business revenues. A $1 invested for operating generates an additional $3 in revenues. Every $1 million in transit construction generates 700- or 800-jobs.

What this means in local communities like mine in Western Pennsylvania, which has suffered over the last decade with the loss of the steel industry, is life or death for many families. It is a very, very key economic issue. We will be happy to supply additional information if you desire.

Mr. BARNETT. The ATA, in cooperation with some other aviation organizations, is about to undertake such a study on the basis of information that was discussed at the recent reauthorization hearings.

Mr. RUANE. IRT has a study under way which will be available to this committee on June 4, and the preliminary results of that research do in fact reinforce some earlier findings that have been referred to and others have sponsored in the past. We believe they will add evidence to the support for increasing funding.

Mr. MCEWEN. I thank you for coming and waiting all day and also for your commitment to this issue.

Mr. ANDERSON. I want to thank the gentleman for asking that question. I am not supposed to say this, but as I look on this list here of groups, whether it is the Transit Association or the Airport Operators Council or the Aircraft Owners and Pilots Association, the American Road Builders, the General Contractors or whatever it is, these are people who all of my life I have respected a great deal.

As a matter of fact, I was a building contractor for many years myself. Almost every time I talk to one of these groups, I have a criticism. My criticism is that you don't tell the public about the benefits of what you do, you don't tell them enough.

I was chairman of the Toll Bridge Authority in California, I built every bridge I could. It made millions of dollars for us. When I was first elected to Congress I had two sleepy little ports, nice ports but they were not making any money. The L.A. port was only 15 feet deep. It takes 45 feet to bring a container vessel in.

I asked AGC for their ideas about how to do it. We deepened the channels and did various things. Now instead of two sleepy ports, we are now number one ahead of New York. We brought in $1½ billion profit to the Treasury for each of the last six years. They tell me it will be $4 billion a year each year for the 1990s, that is $40 billion. My bill, H.R. 2020, will bring in something like $150 billion profit for the Federal Government that we would not have had if we had not done that.

I had a good fight on the floor six years ago because I was in the building business and I built and renovated buildings. We had nine or ten different little Federal offices in town that paid rent each month. I asked how much it would cost them to build a building for the same size as the older places. We did that. The building is up now.

I was attacked for being a big spender when I did it. Just recently the real estate people put a sign on the lawn saying "Big Saver." It will save close to $40 million in just a few years, saving that much rent. Then it will be clear from then on.

One thing you don't do is tell, when you build a highway or a port or whatever, somehow along the line it looks like an expense we don't get back. It is hard to find one airport in this country that is not making money or one public building that is not saving money. I think you ought to tell people about that.

I am sorry I made a speech. I think that is all of our questions. That was all of our panel.

I want to thank you very much for coming.

[Whereupon, at 3:50 p.m., the subcommittee was adjourned.]

[Mr. Desjardins' prepared statement appears on page 104.]
[Mr. Ruane's prepared statement appears on page 189.]
[Mr. Brown's prepared statement appears on page 96.]
[Mr. Barnett's prepared statement appears on page 82.]
[Mr. Wigington's prepared statement appears on page 197.]

STATEMENT OF JAMES ANDERSON, PRESIDENT, ANDERSON BROTHERS COMPANY, ON BEHALF OF THE ASSOCIATED BUILDERS AND CONTRACTORS

(Speaking for the MERIT Shop)

Good morning. My name is Jim Anderson and I am President of Anderson Brothers Company, a heavy highway contractor located in Brainerd, Minnesota, with operations in Minnesota and South Dakota. On behalf of the Associated Builders and Contractors (ABC), and as Chairman of the ABC Infrastructure Task Force, I appreciate this opportunity to testify on the benefits of taking the Highway Trust Fund off-budget.

Associated Builders and Contractors represents over 18,000 contractors, subcontractors, material suppliers and related firms from across the country and from all specialties in the construction industry. Our diverse membership is bound by a commitment to the merit shop -- the most efficient construction technique in America. The merit shop philosophy of awarding construction contracts to the lowest responsible bidder, regardless of labor affiliation, through open and competitive bidding, assures taxpayers and consumers the most value for their construction dollar. With 75 percent of construction today done by merit (open) shop contractors, ABC is proud to be their voice.

We commend Chairman Anderson, Congressman McEwen and members of the Subcommittee on Investigations and Oversight for bringing this most important issue to the forefront.

The deteriorating condition of our nation's surface transportation system has been well documented as well as the need for increased investment from all sectors of the economy both public and private.

The question that remains unanswered is how to finance desperately needed road and bridge improvements and fund new projects that will alleviate urban congestion and improve rural access. The time has come to make some hard choices and the place to start is with the Highway Trust Fund.

As you are all aware, the Highway Trust Fund was established in 1956 to create a self sustaining and stable revenue source, wholly separate from general revenue, that would be needed to develop a national highway system. This pay-as-you-go program is based on two important premises which in themselves justify removing the Highway Trust Fund from calculations under the Unified Federal Budget.

First and foremost, the user fees collected are dedicated solely to financing the Federal-aid highway program -- with a small portion more recently dedicated to mass transit. This ensures the American people that each and every time they stop at the pump, their gas tax investment will be returned to them in better and safer roads and bridges.

The strong linkage between the gas tax, as a dedicated highway user fee, and the return on investment to highway users is integral to the success of the program. However, this trust is currently being violated by the billions of dollars held hostage in the Highway Trust Fund. Not only does this threaten the future viability of the highway program, but also threatens our productivity as a nation and our competitiveness in the global market.

Secondly, the program ensures that the government cannot spend more than it takes in through a deficit control mechanism known as the Byrd Amendment. This amendment mandates that the total unpaid commitments against the highway account at the end of the fiscal year do not exceed the end-of-year balance plus projected revenues for the next two fiscal years.

The solvency of the trust fund is further assured by the fact that the user tax is authorized for two years after the authorization of any allocations. The Surface Transportation and Uniform Relocation Assistance Act passed in 1987 authorized highway programs to be funded through 1991 and, at the same time, authorized the tax to be collected through the end of the fiscal year in 1993.

The Highway Trust Fund is totally and completely financed by highway users and does not contribute to the deficit, yet trust fund surplus amounts are included in the totals of the Unified Federal Budget. This serves only one purpose -- to mask the size of the federal budget deficit.

The current balance in the Highway Trust Fund is 10.6 billion dollars. This translates into an estimated surplus of nearly $8 billion dollars over and above the built in protection of the Byrd Amendment requirements. This surplus is totally unnecessary and, considering the current state of our transportation infrastructure, can no longer be accepted. A cushion of $1 to $3 billion dollars would be more than ample to cover any bills that may come due prematurely and allow for increased spending without increased taxes.

Inclusion of the Highway Trust Fund in the Unified Federal Budget subjects highway programs to arbitrary expenditure ceilings which prevents millions of dollars from going to every state in the union. For example, California currently has an unobligated balance of 821 million dollars with only 182 million dollars remaining before they reach their obligation limit for fiscal year 1990. Therefore, California is precluded from spending 639 million dollars of their apportionment. Similarly, Ohio is prevented from spending 274 million dollars this fiscal year.

It is important to note that taking the trust fund off-budget does not remove the funds from under the budget/appropriation process. It would, however, remove the incentive to place low obligation ceilings for the purpose of reducing the size of the federal deficit and free up funds desperately needed to meet the needs of our increasingly burdened transportation system.

Not only are trust fund monies subject to arbitrary obligation ceilings, but also to Gramm-Rudman-Hollings spending cuts -- even though the trust fund is a stand alone fund that does not contribute to the deficit. With the current federal budget having to be reduced by nearly $40 billion dollars to meet Gramm-Rudman deficit reduction targets, once again the Highway Trust Fund is subject to intrusion.

While ABC understands the severity of the deficit situation and supports deficit reduction as a top priority, the investment in transportation infrastructure required to sustain our nation cannot be sacrificed in the process.

ABC applauds Congressman McEwen for introducing H.R. 286, the Infrastructure Protection Act of 1989, which provides that receipts and disbursements of transportation trust funds shall not be included in the totals of the Unified Federal Budget. We also would like to thank the many members of the Public Works Committee that have co-sponsored this legislation and encourage their continued efforts in this regard.

We are heartened by similar efforts to move the Social Security Trust Fund from federal budget calculations and recent comments by Majority Leader Richard Gephardt and Minority Whip Newt Gingrich in support of the same treatment for the transportation trust funds.

Before I conclude my remarks, a discussion about the Highway Trust Fund would not be complete unless I mentioned a number of other relevant concerns ABC has regarding the trust fund.

Currently, gasohol receives a 6 cent exemption from the 9 cent excise tax on motor fuel. This exemption is an unnecessary drain on the Highway Trust Fund. In 1988 alone, the gasohol exemption cost the Highway Trust Fund over $470 million dollars in gas tax revenue and diverted an additional $160 million from state and local transportation needs. While ABC supports alternative fuels that are cost effective and environmentally sound, we do not believe the highway program should bear the brunt of a subsidized alternative fuels program. A vehicle powered by gasohol contributes equally to road wear and tear, but only pays a third of the federal fuel tax. We are simply asking that all highway users pay their fair share.

Additionally, Clean Air legislation moving through Congress that mandates the use of oxygenated fuels without simultaneously repealing the 6 cent exemption provided ethanol fuels, will have a serious impact on Highway Trust Fund revenue.

The Clean Air Act Amendments of 1989, as passed by the Senate, contains a provision requiring that fuel sold during winter months in the 44 serious carbon monoxide non-attainment areas must contain a 3.1 percent oxygen level. This is effectively an ethanol mandate and is estimated to cost the Highway Trust Fund at least $1.1 billion dollars in annual revenue. An oxygenated fuels program with an oxygen content requirement of 2.7 or lower, as required in the House bill, would allow for the use of non-exempt blends, provide eighty percent of the air quality benefits attributed to ethanol and not cripple the trust fund.

And lastly, the federal tax on motor fuels must be preserved as a dedicated highway user fee. Any federal fuels tax hike for deficit reduction threatens our nation's highway program. A federal tax on gasoline for deficit reduction purposes would divert billions of dollars annually that should be dedicated to improving the dangerous condition of our roads and bridges, and would derail many state initiatives for increased funding for state highway improvement programs.

The Highway Trust Fund has not only been a vital tool in laying the basic foundation of our nation's highway system, but has paved the way for our growth and prosperity. Today we face a whole new series of challenges. Our ability to compete in a global economy is becoming increasingly more important and will depend on a safe and reliable transportation system. We must rebuild, reinvigorate, streamline. We can start by taking the transportation trust funds off-budget.

On behalf of the Associated Builders and Contractors, I again want to thank the Subcommittee on Investigations and Oversight for the opportunity to be here today. I will be happy to answer any questions you may have.

Statement of Larry Barnett,
Vice President, Government Affairs,
Air Transport Association of America
Before the House Committee on Public Works and Transportation
Subcommittee on Investigations and Oversight
On the Budgetary Treatment of the Airport and Airway Trust Fund
May 8, 1990

My name is Larry Barnett, and I am Vice President for Government Affairs of the Air Transport Association of America, which represents U.S. scheduled airlines. I appreciate the opportunity to appear before you today to relate the views of the airline industry on the budgetary treatment of the Aviation Trust Fund.

THE NATIONAL AVIATION SYSTEM

Mr. Chairman, it is imperative that we update and improve the capacity and efficiency of our national aviation system. The current system handled 6.7 million flights last year and transported about 450 million passengers. Despite a reduction of 22,000 flights, delays increased 17 percent in 1989 over 1988, largely because of the technological inability of the air traffic control system to meet system demand.

It has been estimated that inconvenience, lost productivity and other delay-related costs amount to more than $3 billion annually. The system does work and is safe. However, due to the absence of a consistent program

that allows spending for modernization in proportion to demand, it does so at too high a cost of inefficiency.

Air carriers are committed to investing to meet the air transportation needs of the future. There are firm orders and options for more than 2,100 new, quieter, more efficient aircraft valued at over $100 billion dollars. Air carriers will also bear a majority of the cost for more than $11 billion in airport construction currently in the pipeline through both bond guarantees and user charges. In short, Mr. Chairman, airlines will invest billions of dollars over the next ten years in preparation for the next century.

THE FEDERAL GOVERNMENT COMMITMENT

Unfortunately, we do not have a comparable level of performance from the federal government. We must rely on the Aviation Trust Fund to provide airway and airport capital improvements, including ATC modernization. Yet, each year, because of budget deficit pressures, the FAA budget is pared below Congressionally authorized levels. And, despite critical system needs, the FAA budget suffers additional cuts due to forced, across-the-board reductions. All of this is occurring at a time when the unobligated surplus in the Aviation Trust Fund is $7 billion and growing.

It is estimated that the Aviation Trust Fund and user taxes will have generated approximately $31 billion in income during the Fiscal Years 1982-90, yet only about $19 billion will have been spent on capital improvements from a fund dedicated for that purpose. If we are to meet

system needs, now and in the future, the commitment of the federal government to system modernization must be strengthened. Revenues collected for aviation improvements must be available for obligation to meet system needs.

THE BUDGETARY ACCOUNTING PROBLEM

There are two primary reasons why Aviation Trust Fund spending has been suppressed and system needs have gone unmet. First, by maximizing revenue inflows and minimizing trust fund outlays, the Office of Management and Budget under both Democratic and Republican Administrations has been able to off-set, on average, $1 billion annually in unified federal budget deficit projections shown in budget submissions of the President. At a time when those budget submissions must meet Gramm-Rudman deficit targets this problem will get worse, as demonstrated by the current Administration request for a 25 percent increase in aviation taxes. The President is asking for increases in the airline passenger ticket tax from 8 to 10 percent, in the tax on aviation fuel from 12 to 15 cents a gallon, on jet fuel from 14 to 18 cents a gallon, and on freight weighbills from 5 to 6 percent - - all at a time when there is a huge unobligated surplus in the fund.

The second problem relates to the nature of Congressional budgeting. Because the Congressional budget process does not discriminate between trust fund revenue and general fund revenue, when spending totals are parceled out to Congressional committees and subcommittees, programs supported by dedicated revenues, including aviation programs, must compete for funding with general revenue supported projects from a single finite pool of non-earmarked new budget authority.

The net effect of these two problems has been devastating. Only once in the past five years has an administration funding request equaled the level authorized by Congress for any aviation capital program. That was in fiscalyear 1986 when the AIP request was consistent with the authorized level for the AIP program. At no other time in the past five years have the administration capital program funding requests been consistent with Congressionally authorized funding levels. As a result, although the Aviation Trust Fund will have generated over $31 billion in income over the 1982 - 1990 fiscal year time-frame, only $19 billion has been obligated during that time for capital improvements.

THE ADMINISTRATION'S POSITION

The Administration contends that the excessive balance in the trust fund is the result of inadequate contributions by aviation users to the operation of the system. OMB argues that the O&M Penalty Provision in current law has suppressed trust fund spending and caused the current excessive balance in the trust fund.

The Administration position is unsupportable. First, it assumes that no benefit whatsoever accrues to the public or to the nation from the existence of a modern system of air transportation. Second, it completely ignores the legislative intent of Congress with respect to the primary purpose of the Trust Fund.

In recent years the Administration has been allowed to shape the debate about trust fund spending around the premise that all system costs should be

allocated to system users -- 85% to the private sector and 15% to the public sector. That premise should not be accepted and, in fact, has been rejected repeatedly by Congress.

As a general rule, government programs exist to advance national goals and priorities. Some of those programs, because of their nature, involve an on-going cooperative effort between the public and private sectors of our economy. National defense is the best example. Just as we have only one national defense system, the nation also has only one national air transportation system.

Are air travelers, who rely on safety regulation by the Federal Aviation Administration, any different, conceptually, from consumers who for example, rely on the Food and Drug Administration to ensure the safety and efficacy of drugs? These groups expect the government to ensure their safety as part of the return they receive from their general tax dollars. At the state and local level, to provide another example, we as a nation believe public education provides a benefit to society for which all members of society -- not just parents of students -- are expected to pay. Mr. Chairman, we would argue strongly that the benefits to society of having a well established, modern, efficient air transportation system are benefits the citizens of every developed country in the world expect from their governments.

THE DISPUTE OVER COST ALLOCATION

Setting that argument aside, the aviation industry has nevertheless agreed in principle to fund fully 75 percent of the entire FAA budget. Congress, in conjunction with trust fund reauthorization legislation in 1982

and in 1987 supported the industry position, and reaffirmed that users should pay no more than 75 percent of FAA's costs, if -- and only if -- aviation capital programs were funded at Congressionally authorized levels.

A number of studies of public use benefit have been undertaken by the government to try and establish a basis for cost-allocation. Strangely, the more people travel by air, the more the system grows, and the more modern system technology becomes, the less public benefit the government is willing to attribute to the system.

In 1973, for example, DOT undertook what we believe was a very authoritative analysis of the benefits of the Airport and Airway System. Nine different methods for allocating costs were examined. DOT concluded four of those methods were valid and sound. Interestingly, the public use benefits of the system calculated four different ways were all in the range of 20 to 25 percent. When measured using long run marginal cost, public use benefit was calculated to be 22.3 percent. As a measure of use, it was 21.3 percent; as a portion of long run incremental costs it was 20.0 percent; and finally, as a remaining benefit from the allocation of separable costs it was 25.2 percent. In short, DOT concluded that system costs should be allocated 50 percent to air carriers, 30 percent to general aviation, and 20 percent to the public sector. It should be noted that public benefit did not include any allocation other than for actual military or government use.[1]

In 1978, the FAA concluded that 26 percent of the entire FAA budget should be allocated to public sector benefit, including 10 percent allocated

to military and government use.[2] However, in recent studies FAA and DOT have back-tracked on previous conclusions. Revised conclusions have been reached, for the most part, by arbitrarily expanding the cost basis for users of the system and charging for clearly public use items, such as the cost of regulation and certification, to users. In fact, FAA's revised approach to cost allocation even assigns certain aviation safety-related costs to consumers -- an assignment FAA admits is purely arbitrary.[3]

The Administration's on-going attempts to shift additional system costs to users is not only built on questionable statistics, it is also in direct conflict with the intent of Congress. The legislative history of the 1970 Act is absolutely clear with respect to the purpose for which funds were to be collected. The intent of Congress was to provide funding primarily for airport and airway capital development programs.

Congress has continually reaffirmed that position. In fact, an Administration proposal in 1971 to restrict capital spending while fully funding O&M costs out of the Trust Fund led Congress to restrict Trust Fund spending exclusively to capital development. Since 1977, an authorization for funding operational programs from the Trust Fund has been permitted by Congress. However, 100 percent of all capital and RE&D program costs are being paid from the Trust Fund.

As outlined previously, cost-allocation studies have generally indicated that aviation users should be responsible for 63 to 75 percent of FAA's costs. ATA has developed spending recommendations based on 75 percent user funding of total system costs (Attachment A). Those recommendations

demonstrate that current tax levels and Trust Fund revenues can support total FAA budget expenditures growing from $9 billion in Fiscal Year 1991 to about $11 billion in Fiscal Year 1995. Even with these increased spending levels, there would still be a Trust Fund surplus of nearly $2 billion at the end of Fiscal Year 1995.

SPECIFIC RECOMMENDATIONS

Unfortunately, unless Congress acts to eliminate either the temptation or the ability of those primarily concerned with budgetary accounting to hold aviation trust funds hostage to deficit reduction, necessary system improvements will not occur. We recommend that this Committee support legislative action that would eliminate institutional accounting pressures that act to hold down trust fund spending and drive up trust fund balances.

The changes we are recommending are not particularly radical. In fact, based on a close examination of the Budget Act, we believe that Congress contemplated a unique treatment of trust fund spending when the legislation was enacted. The Act specifically exempts trust funds that are 90 percent or more user supported (aviation is 100 percent supported) from general provisions of the Act designed to control outlays flowing from new spending authority.[4] We believe our recommendations are consistent with the legislative intent behind that exemption, and reflect the true intent of those who drafted the original Act.

Specifically, we recommend:

1) Removing the receipts and disbursements of the Airport and Airway Trust Fund from the totals of the Budget of the United States as submitted by the President to the Congress and from the baseline used to calculate the federal deficit under the Balanced Budget and Emergency Deficit Control Act.

2) Removing the same receipts and disbursements from annual congressional budget resolution totals of aggregate revenues, expenditures, and resulting deficits,

3) Providing a separate Section 302 (a) Allocation of Totals to House and Senate Committees, as prescribed by the Budget Act, for all disbursements from the trust fund included in budget resolution conference reports,

4) Providing a separate allocation for trust fund spending under Section 302 (b) Reports by Committees, as prescribed by the Budget Act, to be reported by both Houses,

5) Exempting disbursements of the trust fund from sequestration required under provisions of the Balanced Budget and Emergency Deficit Control Act, and,

6) Maintaining provisions of existing law which provide for automatic reduction in authorizations for support of FAA operations from the Aviation Trust Fund when funding for FAA capital programs falls short of authorized levels.

AN HONEST FUNDING SYSTEM, WITH CONGRESSIONAL CONTROL

Mr. Chairman, I would like to stress that these proposals are designed to remove existing accounting pressures to hold down trust fund spending. They would not eliminate the ability of Congress to exercise oversight and control over spending for aviation programs. In fact, the institutional controls Congress would continue to exert over spending from the Aviation Trust Fund would far exceed those it now exercises over the principal trust fund that is being considered for off-budget status: Social Security.

Every dollar spent from the aviation trust fund would continue to be authorized by Congress on a regular basis. In addition, before a single dollar could be obligated, that action would have to be approved through annual appropriations legislation. That is not the case for Social Security spending which, as an entitlement program, is subject to neither regular authorizations nor annual appropriation.

In addition, authorizations for aviation programs are effective only in the amounts and to the extent that they are funded by a revenue title or a separate revenue measure originated with the Ways and Means Committee, or the Finance Committee in the Senate. This would not change. Spending authorizations would continue to be dependent on independent revenue raising legislative action. In the Social Security program, spending is prescribed by law — with or without revenue legislation.

Further, aviation programs have built-in anti-deficiency protection. The revenue titles for aviation programs have historically extended past the expiration dates of their associated spending authorizations. Revenue

collection continues after spending authorizations expire. When new revenue legislation is enacted revenues can be set at levels calculated to match already enacted spending legislation. This protection does not exist in non-transportation trust funds, including Social Security.

The Committee should also remember that aviation trust fund spending for capital programs is 100 percent covered by revenues generated either directly or indirectly from program users. Other trust fund-financed programs, including Social Security, Medicare, civilian and military retirement, and black lung, are subsidized by general revenues. The only general revenue going into the Aviation Trust Fund is in the form of interest payments -- which only occur because of the large unexpended balance in the trust fund.

Finally, the Aviation Trust Fund has been financially sound and solvent since its inception. The Social Security trust fund, on the other hand, has been beset by a number of financial problems and has been the subject of various financial rescue packages. Long term solvency is a critical difference.

CONCLUSION

In 1982 the aviation community agreed, in return for an ironclad commitment to modernize and expand the system, to a substantial transportation user tax increase and to substantial increases in O&M trust fund expenditures over prior years. As you know, Mr. Chairman, taxes were raised -- but the ironclad assurances that the system would be fixed have

never materialized. Then in 1987, when new assurances were given that the capital needs of the system would be fully funded, we made a further commitment to fund about 75 percent of total system costs.

Our willingness to uphold that commitment to pay our fair share of system funding remains strong. In fact, based on 1985 Congressional Budget Office calculations, commercial aviation users were overpaying for their share of system costs by about 20 percent.[5] Even as recently as 1987, FAA estimated that commercial users would pay over 100 percent of their fair share of system costs during the 1990s.[6]

As an industry, even though the airlines believe there is just and sufficient reason to contest the levels of contribution we are expected to make to the national aviation system, we have not chosen to do so. If system capital development programs are funded at Congressionally authorized levels, we are fully willing to contribute about 75 percent of total system costs. We are not willing, however, to see those contributions held hostage to deficit reduction.

Less than a month ago the Washington Post ran a Herblock cartoon which says it all. "Don't be irresponsible," says the Administration after looting the Highway, Social Security, and Aviation Trust Funds, "if you want us to stop robbing banks, tell us where else we can get this kind of money."

We applaud the concern shown by this committee for finding ways to stop the looting of the trust fund so that we can meet the needs of our national aviation system. We encourage you to begin by recommending accounting

changes necessary to provide sufficient levels of system funding to meet the aviation challenges we face as we enter the next century.

Thank you.

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1 Department of Transportation, "Airport and Airway Cost Allocation Study: Determining Allocation and Recovery of System Costs", 1973.

2 Federal Aviation Administration, "Financing the Airport and Airway System: Cost Allocation and Recovery", 1978.

3 Federal Aviation Administration, Airport and Airway Costs: Allocation and Recovery in the 1980s", 1987, page 13 (footnote).

4 The Congressional Budget And Impoundment Control Act of 1974, As Amended, (Public Law 93-344), Sec. 401 (d)(1)(B).

5 Congressional Budget Office, "The Federal Budget for Public Works Infrastructure", 1985, pages 36-37.

6 Federal Aviation Administration, 1987, pages 40-41.

Attachment A

February 1990

AIR TRANSPORT ASSOCIATION

Proposed Aviation Trust Fund Program Spending and Revenue

Fiscal Years 1991–1995

The following spending and revenue projections were developed by the Air Transport Association. These projections assume no change in the Aviation Trust Fund tax levels.
All figures are in billions of dollars.

Fiscal Year	1991	1992	1993	1994	1995
Unobligated Balance Statement					
Trust Fund Income	$5.592	$5.987	$6.258	$6.715	$7.012
Prior Year Unobligated Balance	$7.953	$6.485	$5.262	$3.959	$2.814
Total	$13.545	$12.472	$11.519	$10.674	$9.826
Less Authorizations/Appropriations	$7.060	$7.210	$7.560	$7.860	$8.160
Unobligated Balance	$6.485	$5.262	$3.959	$2.814	$1.666
Income					
Ticket Tax (8%)	$3.708	$4.016	$4.238	$4.696	$5.000
Waybill Tax (5%)	$0.204	$0.220	$0.234	$0.243	$0.256
International Tax ($6)	$0.244	$0.250	$0.268	$0.280	$0.292
Fuel Tax ($0.12/$0.14)	$0.114	$0.117	$0.121	$0.123	$0.124
Interest (9%)	$1.322	$1.384	$1.397	$1.373	$1.340
Total	$5.592	$5.987	$6.258	$6.715	$7.012
Authorizations/Appropriations (Trust Fund Expenditures)					
AIP	$1.800	$1.800	$2.000	$2.150	$2.300
F&E	$3.000	$3.000	$3.000	$3.000	$3.000
RE&D	$0.260	$0.260	$0.260	$0.260	$0.260
O&M	$2.000	$2.150	$2.300	$2.450	$2.600
Total	$7.060	$7.210	$7.560	$7.860	$8.160
User Share of Trust Fund					
Total FAA Budget	$9.280	$9.600	$9.900	$10.400	$10.800
Total Funded by User	$7.060	$7.210	$7.560	$7.860	$8.160
Percent FAA Budget Funded by User	76.1%	75.1%	76.4%	75.6%	75.6%

Notes:

1. Estimated income based on CBO study titled "Status of the Airport and Airway Trust Fund", 12/88, and current tax levels except International Tax adjusted to reflect 1/1/90 increase from $3 to $6, and fuel tax based on 6/89 OMB data. Interest calculated on cash balance.
2. Authorizations based on current law for AIP, FY 1991-92, and ATA recommendations for other years and Programs.
3. Proposed Trust Fund expenditures contemplate approximately 75% user share of total FAA budget, FY 1991-95.
4. Estimated Trust Fund Balance end of FY 1995, approximately $1.666 Billion

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Statement of Steve J. Brown

Vice President
Strategic Planning and Policy

Aircraft Owners and Pilots Association

Before the

House Committee on Public Works and Transportation
Subcommittee on Investigation and Oversight

Honorable Glen Anderson, Chairman

Treatment of Transportation Trust Funds

May 8, 1990

Good afternoon Mr. Chairman and Members of the Subcommittee. My name is Steven J. Brown, and I am Vice President for Strategic Planning and Policy for the Aircraft Owners and Pilots Association.

AOPA represents the interests of over 300,000 individual members who own and fly general aviation aircraft to fulfill their personal and business transportation needs. We appreciate this opportunity to comment on the current status of the Airport and Airway Trust Fund.

Our testimony today focuses on two questions. First, whether the Aviation Trust Fund should be removed from the federal budget. Second, what level of support for FAA operations is appropriate from the Airport and Airways Trust Fund. This is a key issue in the reauthorization debate, as it has been since the Trust Fund was first established.

Budget Reform. AOPA supports the concept of removing the Airport and Airway Trust Fund from the unified federal budget. For too long, our Trust Fund has been held hostage to successive Administrations which have used the surplus to mask the true size of the deficit. Our position on this issue is simple. Spend the money for its intended purpose -- capital improvement of the nation's aviation infrastructure -- or stop collecting the taxes.

The Department of Transportation's long promised and quickly forgotten national transportation policy is an apparent example of the Administration's lack of commitment to infrastructure funding. While billions sit idle in transportation trust funds, we hear the same litany offered by the previous Administration -- let's increase user fees and rely on the states to do more. That is not leadership, rather it is an abdication of responsibility.

AOPA supported this Committee's effort in 1987 to remove the the Aviation Trust Fund from the federal budget. Unfortunately, the effort fell five votes short. But given the tremendous interest generated by the concept of removing the Social Security Trust Fund from the budget, now may be the time to remove the transportation trust funds, as well.

Of course, removal of the Airport and Airway Trust Fund from the unified federal budget and the Gramm-Rudman-Hollings spending limits should not be construed as being a blank check for the FAA. The aviation community values the continued oversight of the relevant authorizing and appropriating committees in Congress. Money will remain in short supply, and spending must be focused and carefully prioritized.

We in general aviation recognize that it is Congress which has helped save Flight Service Stations, that essential

component of aviation safety, when FAA has attempted to close hundreds of FSS's before promised modernization. It is Congress which has halted the deployment of the controversial Microwave Landing System, a system that promises us little more than current landing system technology -- except, of course, dramatically higher costs. And, it is Congress that is directing the FAA to step up the pace on moving from our current navigation and air traffic control system, to the future system based on satellite technology.

Impact of Budget Reform. It is evident that large aviation infrastructure needs exist which justify higher prioritized levels of capital spending on aviation. Among the most critical areas of impact resulting from removing the Aviation Trust Fund from the unified federal budget would be on the Airport Improvement Program. AOPA has analyzed the pending AIP grant applications applicable to each of the 22 primary airports and 46 reliever and general aviation airports located in the 20 busiest metropolitan areas in the country. These are the locations where the airport capacity problem is most severe and where it must be addressed first.

At the 22 primary airports themselves, we have identified pending airside capacity enhancement needs worth approximately $2.2 billion. At the 46 reliever and general aviation airports serving the 20 most congested metropolitan areas, we have identified airside capacity enhancement needs worth approximately $383 million.

Combined, AOPA estimates there are approximately $2.6 billion worth of priority capacity enhancement needs which must be addressed immediately. There are also an additional $5 billion worth of pending grant applications, some dating back as far as 1980. While not all of these pending applications are directly related to the enhancement of airside capacity, many are related to the safety or utility of our airports system and must also be considered among the priorities of the 1990s. When capital needs are as great as this, how can the Administration ask Congress to draw down the Aviation Trust Fund by spending more on Operations?

Strict Limits on Operations Funding. AOPA has consistently opposed the use of Trust Fund money for any purpose other than the capital development of the national airport and airway system. Since the Trust Fund was first established in 1970, Congress has consistently and clearly intended that the user taxes which support the Trust Fund are to be used predominantly for the capital development of the system.

The Trust Fund has never been intended for use in any substantial manner to pay for FAA Operations costs. And it certainly was never intended to be hoarded and used to mask the true magnitude of the federal budget deficit.

To the extent that Trust Fund support of Operations spending has been permitted by the Congress, we believe that the debate during the last three reauthorizations has already settled the issue of what level of Trust Fund support is appropriate for Operations. The Operations camel has already pushed too much of its nose into the tent.

Congress should draw the line at the status quo. As provided by current law, no more than 50 percent of the amounts made available for F&E, AIP, and RE&D should be authorized for funding out of the Trust Fund for FAA Operations. Furthermore, Congress should reimpose the two-for-one penalty clause, which reduces the authorized level of spending for Operations when amounts made available for capital programs fall short of authorized levels. And AOPA recommends re-enactment of the so-called "trigger" mechanism established under the Airport and Airway Safety and Capacity Expansion Act of 1987.

Preservation of capital investment. The primary objective which has motivated imposition of the penalty clause and the attempted reduction of aviation user taxes under the "trigger" is obviously the desire to spur increased levels of spending on capital development. We recognize that the objective has not necessarily been achieved. Otherwise, a $7 billion surplus would not be languishing in the Trust Fund. Yet, these devices -- especially the penalty clause -- have helped to protect Trust Fund dollars from the constant onslaught of the Administration and others who would plunder the surplus and use it to pay for the paperclips and rubber bands of the FAA. Once again this year, the Administration is proposing that 85 percent of the total FAA budget should be paid for out of the Trust Fund, and they have proposed a 30 percent increase in user taxes to help foot the bill.

Of course, the Administration has also failed, again, to request levels of funding for capital programs which come close to the authorized levels. Take AIP, for example. Despite a backlog of $7.5 billion in pending grant applications and approximately $2.6 billion of that total identified by AOPA as priority needs, the Administration has requested only $1.5 billion for AIP. That's 300 million dollars short of the $1.8 billion level authorized by this Committee.

Unless the Trust Fund is taken off the unified federal budget or a better way can be devised to spur capital spending and protect the Trust Fund from those who would divert it to Operations, we believe the status quo is the only alternative. And try as we might, we have been unable to devise a better approach, nor are we aware of viable alternatives offered by others.

The integrity of the Trust Fund must be protected from further erosion. The flawed reasoning employed by the

Administration, as well as the Congressional Budget Office and others who have advocated funding 85 percent of the FAA budget out of the Trust Fund, utterly ignores both Congressional intent and the enormous public benefit of our national air transportation system.

Public benefit. AOPA rejects the argument which suggests that only air travelers benefit from aviation and should therefore pay the entire cost of developing, maintaining, and operating our National Air Transportation System. The benefit realized by the American people from aviation is enormous, and it can be demonstrated in many ways.

The commercial air carriers transport 450 million passengers each year, a number which is growing. General aviation carries nearly a quarter of the nation's air travelers, or 120 million passengers annually. The air freight industry has blossomed during the last decade. Government forecasts predict continued growth in all segments of the aviation community -- a doubling of air carrier passenger traffic by the turn of the century and an increase in general aviation activity of approximately five million flying hours.

The public benefit of aviation is demonstrated by the broad range of contributions to the social and economic well-being of our communities, and many of these contributions are directly attributable to general aviation. General aviation serves 17,300 landing facilities in the United States, while the air carriers concentrate more than 75 percent of their flights at just 48 locations across the nation. More than one-half of all scheduled airline flights serve just 22 of the largest airports in the U.S.

General aviation plays a central role in our communities by providing such services as agricultural application, cattle management, air ambulance services, medical evacuation, oil and gas pipeline patrol, airborne law enforcement, environmental analysis, topographical surveys, and news and traffic reporting. The estimated annual impact on consumers of aerial agriculture applications alone is $13 billion. All of these crucial services must be factored into the public benefit equation.

Consider, also, the cost/benefit return on federal tax dollars invested in aviation. This year, approximately $7.2 billion will be invested in aviation by the U.S. government, or roughly $28 per American citizen.

An economic impact study conducted by Wilbur Smith Associates for the Partnership for Improved Air Travel revealed that aviation generates a direct economic benefit of $254 billion annually -- 5.6 percent of the nation's Gross National Product. And the indirect economic impact of aviation

is more than twice the direct benefit. For every tax dollar invested in aviation, the nation receives $35 in economic benefits. That's a return on investment of 3,500 percent. In other words, more than $1,000 in economic benefits is realized for the average investment of $28 contributed by individual taxpayers.

Furthermore, for every tax dollar invested in aviation, 62 cents has historically come directly from the users of the system. Only 38 cents of every dollar comes from the general taxpayer. Consequently, the general taxpayer receives an average return of $35 for every 38 cents invested, or $92 dollars for every tax dollar.

The public benefit realized from aviation is simply undeniable. Yet, successive Administrations have sought to convince Congress each year that users should pay for 85 percent of the FAA budget. This weary proposal is based on the flawed logic that costs should be allocated solely based upon use of the system. The FAA has employed a cost allocation analysis, rather than the more appropriate cost/benefit approach which should be applied.

Congress has consistently recognized the public benefit of our National Air Transportation System, and it has deemed it appropriate that a significant investment should be contributed out of general tax dollars to help operate and maintain the system. General aviation pilots and all the users willingly pay their fair share. AOPA applauds Congress and this Committee for its continuing efforts to ensure that all those who benefit from aviation are called upon to help support the system.

Legislative History. Congress and the Executive Branch came into conflict during the very first year following establishment of the Trust Fund. Legislative history clearly confirms that Congress considered the Trust Fund to serve predominantly as a capital development fund. But the Nixon Administration viewed the new system as entirely user funded.

In a supplemental appropriation request for FY71, the Administration first tipped its hand by requesting far less than was authorized for airport grants and airway facilities. Then, in its FY72 budget request, the Administration proposed that the entire balance in the Trust Fund be used to fund the FAA's Operations costs. That action formally commenced the debate which continues today, twenty years later.

In November 1971, Congress countered the Administration's attempted raid of the Trust Fund by amending the law to prohibit the use of Trust Fund dollars for FAA Operations. When the Trust Fund was reauthorized in 1976, Congress acted to permit a minimum level of funding from the Trust Fund for the maintenance of navigation facilities. But leery of abuse by the

Administration, Congress also placed a cap on the amount which could be spent for such purposes. It also enacted a one-for-one penalty clause which reduced expenditures for maintenance of navigation facilities in direct proportion to any shortfall in airport grants below authorized levels.

During the next reauthorization effort in 1982, Congress toughened the restrictions on use of Trust Fund money to pay for FAA Operations. The cap was established as a multiple of the actual amount made available for obligation each year for airport grants. And a new two-for-one penalty clause was imposed to reduce the cap by twice the difference between authorizations for Facilities and Equipment spending and the actual appropriations for the program.

The intent in the 1982 law, once again, was to permit spending from the Trust Fund for Operations only after authorized levels for capital development had been satisfied. This is also the year that aviation user taxes were substantially increased, primarily to pay for the FAA's freshly unveiled National Airspace System Plan.

The Airport and Airway Safety and Capacity Expansion Act of 1987 reauthorized spending for aviation programs and reimposed the aviation user taxes to support the Trust Fund. The law also continued to make a controlled amount available out of the Trust Fund for FAA Operations, and it retained the established practice of tieing spending for Operations to spending for the primary Trust Fund capital programs -- AIP, F&E, and RE&D.

The two-for-one penalty clause was retained in 1987, and Congress adopted a mechanism which became known as the "trigger." The trigger was designed to cut aviation excise taxes in half if aviation capital spending fell below 85 percent of authorized levels.

In fact, capital spending fell short, and the trigger should have been pulled on January 1st of this year. But the new Administration's Office of Management and Budget insisted that Congress suspend the trigger for one year as part of the annual hocus-pocus to meet Gramm-Rudman deficit targets. That wasn't enough for OMB, of course. It also attempted to persuade Congress to divert $1 billion out of the Trust Fund to pay for FAA Operations -- perpetuating the legacy it inherited from each of the previous Administrations since 1970. Fortunately, Congress firmly and unambiguously rejected the attempted diversion of Trust Fund dollars.

It's a long and bumpy road which brings us to where we are today, Mr. Chairman. But the Congress has consistently reaffirmed its original intent to apply Trust Fund dollars on a priority basis to the capital development needs of the National Air Transportation System. We are counting on the strong

leadership of the Public Works Committee to help ensure that the integrity of the Trust Fund is maintained.

* * * * *

Mr. Chairman, the capital needs of the system are clearly growing, yet the Administration proposes to "draw down" the Trust Fund surplus by spending more on Operations. We find that astounding. At such a critical stage in the development of aviation, there are simply no plausible arguments which can justify diverting additional Trust Fund dollars away from the capital programs the Trust Fund is intended to support.

And how disappointing that the Bush Administration is perpetuating the practice of failing to request funding for Amtrak and other important transportation programs. This merely aggravates the problems which have resulted in the growing Trust Fund surplus, and it forces Congress to make all the difficult decisions regarding funding priorities for transportation.

These issues are among the most perplexing facing us, and we are anxious to work with you and this Committee to seek answers. An important part of the answer is an Administration which appreciates the public benefit of aviation and is prepared to work with Congress and the industry to apply Trust Fund resources where they are needed -- to the capital needs of the system.

Thank you, Mr. Chairman. I will be happy to answer your questions.

Testimony of
Robert Desjardins
of

The Associated General Contractors of America

Presented to the
House Public Works and Transportation Subcommittee
on
Investigations and Oversight
United States House of Representatives
On the Topic of
Transportation Trust Funds
May 8, 1990

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Mr. Chairman and Members of the Subcommittee, my name is Bob Desjardins and I am a contractor from Pittsfield, Maine. I am also this year's Highway Division Vice Chairman of the Associated General Contractors of America (AGC), a construction trade association representing more than 32,500 firms, including 8,000 of America's leading general contracting firms, which are responsible for the employment of more than 3,500,000 individuals. These member construction contractors perform more than 80 percent of America's contract construction of highways, bridges, airports, commercial buildings, industrial, and municipal utility facilities.

AGC applauds this Subcommittee for holding this important hearing on the nation's transportation trust funds. Adequate investment, supported by the Highway and Aviation Trust Funds, in our nation's transportation infrastructure is the foundation for continued economic prosperity and international competitiveness.

HIGHWAY TRUST FUND

The trust fund concept has long been recognized as the most reliable and stable financing mechanism for infrastructure investment. As early as the 1930s several states had developed dedicated, user-fee mechanisms to support highway improvement programs in their states. By 1956, the year the Interstate Highway Program was initiated, some 25 states had instituted trust funds or similar dedicated funding sources for their highway programs. Using these successes as a model, the Interstate Highway Program was developed around the user-fee trust fund concept. That financing mechanism has served this country well for nearly 35 years, supporting the nation's highway program and developing the world's greatest public works project -- the Interstate Highway System.

Several key features of the Highway Trust Fund are responsible for its success. First, it is user-fee financed -- the nation's highway transportation system is paid for only by the users. The more you use the system the more you contribute to its upkeep. The public support for the highway program has remained strong primarily because the traveling public receives a direct benefit from the money it pays in user fees.

Another key aspect of the trust fund is that it provides a stable and reliable financing mechanism on which a successful, major capital investment program depends. A typical highway project may take 7 to 10 years from the planning stage to completion. Proper planning for the transportation needs of the future requires that a dependable source of revenue be available to finance the needed improvements when they are ready for construction. The multi-year authorization process and contract authority are critical ingredients to allow for this long term planning and assure the highway program's success.

From the budgetary standpoint, perhaps the most significant feature of the trust fund is the Byrd Amendment which assures its solvency. The amendment provides that on an annual basis, there is a determination of the outstanding obligations,

current balance and expected receipts of the trust fund. This information is used to guarantee that future commitments against the trust fund can be honored.

AVIATION TRUST FUND

In much the same manner as the highway program, the Aviation Trust Fund has served the needs of the nation's airline passengers by providing a user-fee based financing mechanism to support airport and aviation capital improvements. The Aviation Trust Fund, currently supported by an 8 percent ticket tax and other user fees, assures that airline passengers are paying their share of the cost to support the nation's aviation system.

The Aviation Trust Fund is different from the Highway Trust Fund, however, in that there is no contract authority and annual appropriations are required to establish spending limits.

REMOVING THE TRANSPORTATION TRUST FUNDS FROM THE BUDGET

Recognizing that the country has an ongoing, critical need to adequately invest in transportation infrastructure, AGC believes the manner in which the transportation trust funds are treated in the budget process needs to be modified. AGC views the trust fund and the highway program in the context of an ongoing capital investment program which should be subject to different rules than the current budget allows.

As mentioned previously, the highway program is founded on the basis of multi-year authorizations for highway investment. The process recognizes that when a highway project is approved and let for contract, it may be 3 or more years before the final reimbursement for the project will be made to a state and the construction contractor paid in full for the work. For this reason, the user fees paid into the Highway Trust Fund are kept in force for 2 years beyond the final authorization in any highway legislation. This provides the necessary financing for the project at the time the bills need to be paid. Without other artificial spending restraints, such as obligation ceilings, the trust fund can support the highway program with a relatively low cash balance of approximately $2 to $3 billion.

The budget problems which have faced this country since the late 1960s, however, have had a detrimental effect on the ability of the federal government to let the trust fund work the way it was intended. Since 1969, artificial spending restraints have caused the Highway Trust Fund balance to increase dramatically to a current balance of over $16.8 billion, including the mass transit account. With the Aviation Trust Fund included, the combined transportation trust fund balances will exceed

$31.0 billion at the end of this fiscal year. Yet, vital transportation needs in this country are not being met.

With the construction of the Interstate Highway System coming to an end, a number of groups are focusing on the future transportation needs of this country. Infrastructure needs studies have been developed by a variety of transportation interest groups particularly during the last few years. The major emphasis of many of these studies is the lack of adequate capital investment, by all levels of government, to maintain our transportation infrastructure and meet the demands of the future.

The most in-depth analysis of highway needs to date, was performed in 1988 by the American Association of State Highway and Transportation Officials (AASHTO). In their report entitled "The Bottom Line -- A Summary of the Surface Transportation Investment Requirements 1988-2020", AASHTO identified annual highway-related capital investment needs of up to $58.5 billion between now and the year 2020. This compares with highway-related capital spending in 1988 of $30.7 billion.

With respect to aviation, congestion and delay are the watch words of air travel in the 1980s. Since the early 1970s, air travel has more than doubled in this country. During this period of unprecedented growth, no new airports have been constructed in this country; the last major airport project was constructed over 15 years ago in the Dallas-Ft. Worth area.

The nation must begin to address its transportation infrastructure needs before the crisis grows to unmanageable proportions. A first step in addressing this issue would be to spend the trust fund balances for their intended purposes. Since the trust fund receipts can be used for no other purpose than transportation, bankrolling these trust funds is not only a breach of faith with the transportation users of this country, but is merely postponing work that should be done now to prevent more costly repairs later.

A longer term solution to this issue is to take the trust funds out of the unified budget. These programs do not contribute to the federal deficit. The large cash balances are the very proof of that. The user-fee financed transportation programs of this country should be funded at the level their trust funds can support. The Federal Highway Administration's budget estimates indicate that beginning in fiscal year 1991, the Highway Trust Fund could support an $18 billion per year highway program through 1993 without increasing current user fees. The receipts should not be loaned to other programs while vital transportation needs of this country go unmet.

SUMMARY

In summary, AGC strongly supports the continued use of transportation trust funds as the best approach to financing highway and airport improvements. AGC also believes that to restore the trust in the transportation trust funds and to keep faith with the users of the nation's highway and aviation systems, the transportation trust funds should be removed from the unified budget and exempted from the Gramm-Rudman-Hollings law.

AMERICAN PUBLIC TRANSIT ASSOCIATION
STATEMENT SUBMITTED TO
THE INVESTIGATIONS AND OVERSIGHT SUBCOMMITTEE
OF THE
U.S. HOUSE OF REPRESENTATIVES

May 8, 1990

PRESENTED BY

Mortimer L. Downey, III
APTA Chairman - Federal Tax Policies Subcommittee and
Executive Director and Chief Financial Officer
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New York, NY

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Chairman Anderson and members of the Subcommittee, the American Public Transit Association (APTA) appreciates this opportunity to present testimony on the status of the Mass Transit Account of the Highway Trust Fund. We commend the Committee for taking the time to examine how trust funds in general and the Mass Transit Account in particular can best be used to support the federal transit program and transportation across the nation.

APTA's membership includes more than 400 transit systems that carry over 95% of the nation's transit riders. APTA's membership also includes some 430 manufacturers, consultants, academic institutions, and government agencies that provide goods or services to the industry. This diversity enables APTA to speak to all facets of the industry, including system funding, operations, and planning trends.

As you know, funding for the federal transit program has declined from $4.6 BILLION in FY 1981 to $3.0 BILLION today. With inflation accounted for, these cuts represent a 50% reduction in purchasing power. They have necessitated service reductions, as well as higher fares, and increased support from state and local government. Those of us involved in the industry firmly believe that transit will have to play a greater role in every community's transportation network as we approach the twenty-first century. More and better public transportation will be necessary to prevent gridlock, to control air pollution, and to ensure that every citizen can participate fully in our society.

In our testimony, we will detail transit's funding needs, and discuss the importance of a substantial and predictable flow of gax tax monies to the federal transit program. We also want to clearly state our support for spending down the available balance in the Mass Transit Account. These funds represent a substantial resource which can be used to quickly meet transit needs.

When we testified on March 20, 1990 before the Surface Transportation Subcommittee on the upcoming reauthorization of the transit program, APTA expressed its support for a seven-cent increase in the federal motor fuels excise tax dedicated to the federal transit program. APTA strongly opposes any effort to use fuel taxes for deficit reduction or for other than transportation purposes. It is our view that public support for this tax is predicated on the certainty that it will be used for its intended purpose and that those who pay the tax derive a clear benefit from its use. It is important not to undermine this confidence. We have recently testified in this vein to the Ways and Means Committee.

In APTA's testimony on the reauthorization of the federal transit program, we recommended that the federal transit program be funded at $11 BILLION annually. Our recommendation is based on transit's current needs, the inevitable demand for increased mass transportation, and our vision of an expanded definition of transit and of transit's role in the national transportation system of the future. Mass transit is an integral part of our infrastructure, and failure as a nation to adequately invest in that infrastructure is hampering our ability to compete effectively in the international marketplace. Deferral of this investment will necessitate greater costs in the long run.

APTA's analysis of the Mass Transit Account indicates that an estimated $3.0 BILLION is now available for expenditure on transit needs above and beyond amounts currently appropriated for transit projects. The Mass Transit Account will have a balance of slightly less than $7.0 BILLION at the end of FY 1990, of which approximately $4.0 BILLION has been obligated for expenditure under the appropriations process. (We have submitted APTA's analysis, entitled "The Highway Trust Fund Suplus" as a supplement to our testimony.) This unobligated balance of approximately $3.0 BILLION represents a significant source of funding to meet transit needs. We support the Committee's recognition of this fact, and we support its efforts to ensure that these funds are drawn down expeditiously and used for the purposes for which they were collected.

THE MASS TRANSIT ACCOUNT

Under current law, one penny of the total excise tax on each gallon of gasoline is deposited in the Mass Transit Account of the Highway Trust Fund. These taxes generate revenues of between $1.2 BILLION and $1.3 BILLION per year.

Funds from the Mass Transit Account are used primarily to fund the Section 3 grant program. This discretionary program provides capital funding for eligible mass transit projects that are selected by the Urban Mass Transportation Administration (UMTA) or designated by Congress. These funds are outlayed when the local transit operator spends the money on a previously approved project -- such as a bus purchase, construction or rehabilitation of facilities, or other capital expenditure -- and then submits a voucher to UMTA. The federal share of Section 3 projects is 75% of project cost; the remainder must be provided from local sources.

In addition, half of all annual obligation authority from the Mass Transit Account in excess of $1.0 BILLION is transferred under Section 9(B) to the formula grant program and eventually distributed by formula to virtually all transit system recipients. These funds, like Section 3 funds, can only be used for capital purposes.

APTA fully supports the obligation and expenditure of the unobligated Mass Transit Account balance of roughly $3.0 BILLION. There are, however, a number of obstacles to spending down this balance which must be addressed.

First, existing authorization limits did not fully allow for spending both the revenues deposited in the account and the interest accumulated on the unobligated balance. Much of the available balance in the transit account is derived from interest on the unauthorized and unobligated balance. The obligation ceiling in the current fiscal year's appropriations act is within $160 million of the maximum allowable under existing authorizing legislation. If Mass Transit Account funds were obligated at the FY 1990 level in FY 1991, this level is only $260 million short of the authorization. While these are not insignificant sums, they would not eliminate the available balance of approximately $3 BILLION.

Second, there is an inevitable delay between the time the money is authorized and obligated by the Congress and the time it is actually spent by the transit system. Once the money is obligated, individual projects must then be reviewed and approved by UMTA before the money can be distributed. After UMTA approves a project, work must be completed or purchases negotiated. It requires time to plan and build capital facilities such as rail systems, busways, maintenance or fueling facilities. In other cases, transit operators often bank bus funds until they can buy enough vehicles to get the most for their money. Banking of bus funds has become especially common for small systems whose limited resources have been further reduced by cuts in the federal transit program.

In order to eliminate the balance in the Mass Transit Account, Congress must both authorize and permit obligation of funds at a rate high enough to utilize current revenues and the accruing interest on unspent balances.

If an increase in the authorization and obligation of funds from the Mass Transit Account is enacted, it will benefit all transit systems if the current program structure is retained. Under current law, half of all obligations from the Mass Transit Account in excess of $1.0 BILLION are essentially transferred to the Section 9 formula program. Since the current transit account program exceeds $1.0 BILLION, fully half of any increase will benefit all transit systems which receive formula funds. This would provide transit systems with additional funding for capital projects and free up other available resources for operating expenses.

The alternative is to retain these balances in the Trust Fund, watch them grow, and utilize them as a means of acheiving a kpaper balance under the unified budget concept.

THE DEMAND FOR SECTION 3 GRANTS

Mr. Chairman, I intend to outline the reasons why APTA supports an increase in the federal transit program. APTA agress that spending down the balance in the Mass Transit Account is a necessary interim step, but we believe that much more will be needed. That is why APTA seeks a seven-cent increase in the current motor fuels excise tax. The current estimated $3.0 BILLION balance available for obligation would not fund the federal transit program for one year at current levels, let alone at the levels that are needed. And the current program level is some 53.6% less, in real terms, than the FY 1981 level.

Even without the large-scale planning for expansion of transit service that would result from implementation of APTA's Transit 2000 program, there is an enormous backlog of grant applications for transit projects awaiting approval in the UMTA pipeline. Based on the most recent data available to APTA, existing demand for just new start projects total more than $33 BILLION. The "new starts pipeline" includes some 27 projects costing more than $17 BILLION in the alternative analysis, preliminary engineering, final design, or construction stages. In addition, some 31 cities have projects in the system planning stage. UMTA studies completed some years ago identified more than $18 BILLION (in 1983 dollars) in rail modernization needs, and most of that backlog still exists.

In fact, the Administration's budget proposal recognizes the need in each of the next ten years for some $2.2 BILLION in annual expenditures to restore existing rail facilities and more than $1.1 BILLION annually to replace and maintain the current bus fleet. The costs of these needs far exceed the $3.0 BILLION in unobligated and uncommitted funds in the Mass Transit Account. And of course, only $1.5 BILLION of this balance would be available for Section 3 grants if one-half of it were given over to the Section 9(B) formula program as required under existing law.

TRANSIT FUNDING NEEDS

To provide the amount of purchasing power provided under the federal transit program in FY 1981, annual funding would have to be set at $6.5 BILLION today. Under the Administration proposal, transit funding would be cut another 25% in FY 1991, resulting in a real decline of 66.5% in federal transit funding since 1981.

APTA believes that public transit is important to the nation's future and that federal assistance for transit should be increased, not cut. When APTA testified on March 20th before the Surface Transportation Subcommittee on the reauthorization of federal surface transportation programs, we discussed funding requirements for essential maintenance, capacity expansion, and compliance with potential new federal requirements under the Americans with Disabilities Act (the ADA bill) and the Clean Air Act Amendments. Essential assistance to assure the renewal and safe operation of existing transit facilities will require some $6.5 BILLION per year in federal assistance, the same amount that would be available to transit by restoring federal funding to the FY 1981 level.

Our long-term views envision doubling of transit ridership. This would require an additional federal investment of $4.5 BILLION per year. This proposal responds to increasing regional problems of congestion, air pollution, and economic costs of an inadequate transportation network. It is outlined in greater detail in Managing Mobility, the final report of APTA's Transit 2000 Task Force, and in APTA's earlier testimony.

In addition to this minimum $11 BILLION annual federal funding requirement for essential reinvestment and capacity expansion, federal mandates in the Americans with Disabilities Act and the Clean Air Act Amendments will impose substantial additional costs on transit systems. For rail and fixed route bus transit, the costs of compliance with the ADA bill could be from $7.8 BILLION to $11.6 BILLION over the next 20 years. The costs of paratransit service could be as high as $13 BILLION in capital and operating expenses over 20 years.

Although passage of a clean air bill appears likely, it is not yet clear what requirements it may impose on transit systems. Should clean air legislation require the industry to convert to alternative fuel buses in large urban areas, APTA projects the following costs: 1) $700 million to convert the 230 garages in affected areas to accommodate alternative fuel storage; 2) $100-150 million per year increase over the current annual vehicle replacement costs because alternative fuel buses are more expensive; 3) $500 to $900 million increase per year in fuel costs. In addition, training, maintenance, and other expenses could also be expected to go up.

Federal support for transit should be increased as a means of achieving national goals and to support new mandates imposed by the federal government. To fund the federal share of transit programs, APTA has called for a seven-cent per gallon increase in the federal fuels excise tax, to be dedicated to transit. We have also proposed a number of substantive changes in the federal transit program.

Just to make ourselves whole, to bring federal transit funding back up to the level of 1980 would take more than the unobligated balance in the Mass Transit Account. Since spending the unexpended balance is a one-time event, this action should be regarded as a necessary positive and helpful first step toward the implementation of a sound transit expansion program.

We believe that it would be good public policy to spend this $3 BILLION uncommitted balance in the Mass Transit Account. This would increase the funds available for transit, to the benefit of systems throughout the nation. It would raise public confidence in our government's competence and trustworthiness. And it would set the stage for a rational, coherent evaluation of the nation's real transit funding needs.

There is an important difference between the transportation trust funds and the Social Security trust funds which demonstrates the importance of ensuring public confidence in the transportation trust funds.

The funding mechanism for Social Security is designed in part to build up a surplus in preparation for the time when a large segment of the population -- the baby-boomers -- retires in the next century. There was a deliberate attempt to build up a surplus in anticipation of this future demographic bulge.

In contrast, the need for transportation funding is increasing at a steady rate. There is a growing demand for transit services <u>now</u>, and not a <u>potential</u> increase in demand at some future date. Moreover, people pay into the transportation trust funds with an expectation that they will receive an immediate return on their money. This is very different from Social Security, where people expect to get something back in ten, fifteen, or thirty years. Today's travellers, including those who do not use transit, suffer if the money in these trust funds is not committed to transportation needs. Truckers and merchants who must move goods, and those who are dependent on their cars are all affected by the availability or lack of good mass transportation. Capturing taxes which cannot be spent on anything but transportation and using them for other purposes will reduce confidence in government. These funds are needed to finance improvements in the nation's transportation system.

Before I conclude, I would like to comment on the news we hear coming from the White House that taxes are on the table in the current budget negotiations. We have laid out transit's immediate needs and we would hope that Congress would ensure that transit is permitted spend a share of any additional revenues which become available on these needs. I reiterate APTA's oppostion to any effort to use fuel taxes for purposes other than transportation programs.

We look forward to working with this Subcommittee and the full Committee throughout the reauthorization process. We would state once again that a resolution of the trust fund surplus issue is a good step forward in the reauthorization process. The nation's transit systems would welcome a decision by Congress to spend down the balance of the Mass Transit Account on public transit projects.

AMERICAN ASSOCIATION OF STATE HIGHWAY AND TRANSPORTATION OFFICIALS

KERMIT H. JUSTICE, President
Secretary
Delaware Department
of Transportation

FRANCIS B. FRANCOIS
Executive Director

STATEMENT BEFORE THE

SUBCOMMITTEE ON INVESTIGATIONS AND OVERSIGHT
OF THE
HOUSE PUBLIC WORKS
AND TRANSPORTATION COMMITTEE

relating to

HIGHWAY AND AVIATION TRUST FUNDS

by

Francis B. Francois,
Executive Director

American Association of State Highway
and Transportation Officials

May 8, 1990

Founded in 1914, AASHTO represents the departments concerned with transportation and highways in the fifty States, the District of Columbia and Puerto Rico, to foster the development, operation and maintenance of an integrated national transportation system. The active members of AASHTO are the duly constituted heads and other chief directing officials of the member transportation and highway agencies.

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Mr. Chairman, my name is Francis B. Francois, and I am the Executive Director of the American Association of State Highway and Transportation Officials, known as AASHTO. I am pleased to respond on behalf of AASHTO to your invitation, seeking our Association's views on the Highway and Aviation Trust Funds, and in particular the Association's views on: (1) the operations past and present of the Aviation Trust Fund and the Highway Trust Fund; (2) their relation and importance to State highway and transit planning and construction; (3) how State highway and transit programs are affected by the level of spending currently being funded by the Highway Trust Fund; (4) the impact obligation ceilings have on State transportation programs, and (5) whether Highway Trust Fund monies are currently adequate to fund transportation programs over and above traditional obligation ceilings.

In this statement I will first take up the Highway Trust Fund and the issues you have asked to be discussed with regard to it. Then I will turn to the Aviation Trust Fund.

The Highway Trust Fund

In the Beginning

The Federal Highway Trust Fund originated when Congress enacted the Federal-Aid Highway Act of 1956, Public Law 627. Sec. 209 established the Highway Trust Fund, provided for the crediting to the Trust Fund of certain revenues, and set forth principles for managing the Trust Fund. The Act provided that the amounts in the Trust Fund would be available as provided by appropriation Acts to meet obligations of the Federal government incurred under the Federal-aid Highway Program.

To provide revenue to the Highway Trust Fund, a 3 cents per gallon fuel tax was established in 1956, which was raised to 4 cents in 1959, where it remained until enactment of the STAA of 1982.

A key issue today in the administration of the Highway Trust Fund is how the interest on the balances in the Trust Fund is to be handled. The 1956 Act provided that "It shall be the duty of the Secretary of the Treasury to invest such portion of the Trust Fund as is not, in his judgement, required to meet current withdrawals. Such investments may be made only in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States." The 1956 Act was very explicit on how the interest from such investments is to be treated, stating:

> "The interest on, and the proceeds from the sale or redemption of, any obligations held in the Trust Fund shall be credited to and form a part of the Trust Fund."

When the Surface Transportation Assistance Act of 1982 was enacted, the tax on both gasoline and diesel fuel was increased, and the diesel fuel tax was later increased again in exchange for certain reductions in other truck-related excise taxes. These fuel taxes provide the large majority of revenue into the Highway Trust Fund. The STAA of 1982 divided the Highway Trust Fund into two accounts, a Highway Account and a Mass Transit Account, and included a provision that the revenue from one cent of each of the gasoline and diesel fuel taxes would be deposited to the Mass Transit Account for public transportation purposes.

Currently, the Highway Trust Fund is credited with highway user revenue from the following taxes or user charges:

- A 9 cent tax per gallon on gasoline, except for gasohol, which is taxed at 3 cents per gallon; the revenue from 8 cents of this is credited to the Highway Account, and from one cent to the Mass Transit Account.

- A 15 cent tax per gallon on diesel fuel; again, one cent of the revenue is credited to the Mass Transit Account, and the balance to the Highway Account.

  Together, these fuel taxes account for about 70 percent of the revenue to the Highway Trust Fund.

- A graduated tax on tires over 40 pounds in weight.

- A 12-percent tax on certain new trucks and trailers.

- A heavy vehicle use tax on trucks over 55,000 pounds in gross weight.

All of the above create a flow of revenue to the Federal government. In addition to this revenue, as provided by law the Highway Trust Fund is also credited with:

- Interest earned within the Federal government on the balance in the Highway Trust Fund, interest which in recent years has effectively not been expended resulting in today's Trust Fund balance.

The original concept of the Highway Trust Fund was that expenditures were to be limited by the amount of revenue flowing into the Trust Fund. The Byrd Amendment was enacted to limit annual spending authority extended by the FHWA to a level that could be liquidated from expected future revenues to the Trust Fund, so that the Trust Fund could not run a negative balance. For well over a decade the Highway Trust Fund functioned very effectively to provide Federal assistance to the States, in the manner of a true and independent trust fund. Highway users understood that the revenue from their Federal fuel taxes and other highway user fees were being deposited into the Trust Fund, that whatever interest was earned on unexpended revenue was accredited to the Trust Fund, and that both tax revenue and interest would be utilized only for highway purposes. During this period the Highway Trust Fund was separate from the rest of the Federal budget.

Mr. Chairman, as this Committee is well aware, the Federal-aid Highway Program operates on the contract authority principle. Your Committee periodically generates authorizing legislation, which establishes the level of highway funding available to each State. Annually, and as directed by statute, these authorizations are allocated or apportioned to each State on October 1, giving that State what is called new obligation authority, which is added to the State's outstanding or unused old obligation authority. Obligation authority has a life of from two to several years, depending on the category of funding, when it will lapse if not used.

Each State then requests the approval of the Federal Highway Administration to obligate a portion of its total outstanding apportionments or obligation authority for specific Federal-Aid Highway projects, and when such obligation is approved there then in effect exists a contract between the Federal government and the State. With obligation in hand the State then proceeds with the highway project using its own funds, with the expectation that it will be reimbursed to the extent of the Federal match level attached to the project.

Under this contract authority concept, as the State completes the several stages of work on the highway project with its own funds it is periodically reimbursed by the Federal government, usually over a period of several years. It is only such reimbursements that result in the need for liquidating cash and actual Federal outlays, and because of the multi-year, contract authority nature of the Federal-aid Highway Program the Federal outlays in any given fiscal year are a composite of apportionments made and obligations extended during that year and for several preceding years, with the current year's obligations requiring only a fraction of the total outlay for the year.

Before exercising its obligating authority, until the invention of obligation ceilings, all the Federal Highway Administration really had to do was to be certain that the total expected obligations during the fiscal year would not violate the Byrd amendment constraint on the Highway Trust Fund. This process was relatively easy to administer, and during these years the Highway Trust Fund operated efficiently. Essentially full and immediate use was made of all the funds credited to the Highway Trust Fund, both highway user revenues and interest earned on any temporary balances in the Trust Fund.

During these years State highway agencies, Governors and State legislatures engaged in an orderly annual highway planning and programming process, knowing that they could rely on the levels of Federal-aid Highway Program funding authorized by the Congress. The States were aware of the expected level of Federal-aid support in advance of the need for matching State funding, allowing timely consideration and adoption of State highway budgets and the establishment of reliable programs. Local governments and the general public could rely on program projections, and generally knew with some certainty when highway facilities would be in place. Those engaged in the construction of factories, commercial centers and housing could plan their developments on the basis of projected highway construction, and the construction industry and its suppliers could plan ahead with a high degree of assurance. All of this helped assure the most effective and efficient use of both Federal and State highway funds.

Then came the invention of obligation ceilings, and the Unified Federal Budget.

Obligation Ceilings

The Federal deficit problem our nation faces today began during the Viet Nam war. In 1966, in an effort to control inflation and deal with wartime expenditures the decision was made by the Executive Branch to place controls on the need for liquidating cash in the Federal-aid Highway Program. The first obligation ceilings were imposed on the program, in the form of outright

impoundments by the Executive Branch of appropriations made by the Congress. Through judicial action initiated by the States, the impoundment of Federal-aid Highway funds was found to be illegal, but the Executive Branch continued to seek ways to reduce highway program funding levels set by Congress.

In 1968 the Unified Federal Budget was created, and the Highway Trust Fund lost its off-budget status and was folded into the Unified Budget as if it were a normal grant or entitlement program. In 1974 the Congressional Budget and Impoundment Control Act was enacted, which gave Congress the authority to overrule impoundment actions of the Executive Branch. In 1976, Congress itself enacted the first obligation ceiling on the Federal-aid Highway Program.

The alleged purpose of the obligation ceiling is to control the requirement for liquidating cash during a given fiscal year, thereby controlling outlays and making them more predictable.

The actual result of obligation ceilings is to override the authorizing Committee with regard to the annual level of funding for the Federal-aid Highway Program, and consequent disruption of the highway planning and programming process at the State level.

The use of obligation ceilings is directly tied to the fact that the Highway Trust Fund is now part of the Unified Federal Budget, where it is regarded as simply another Federal program and not a Trust Fund program. Being part of the Unified Budget, outlays incurred under the Federal-aid Highway Program are regarded as a part of the outlays in the Unified Budget.

If the Highway Trust Fund had retained its off-budget status, then there would be no need, nor any justification, for annual obligation limits or ceilings. In its former off-budget status the Highway Trust Fund operated successfully for a decade. Mr. Chairman, along with many members of Congress, AASHTO believes that the Highway Trust Fund should return to its off-budget status, and that the use of obligation ceilings should be eliminated.

The Committee has asked for comment on how the use of obligation ceilings affects State transportation programs. Put simply, these ceilings are very disruptive to any orderly planning and programming process, and to the most effective and efficient use of highway program funding.

Typically, States begin the Federal-aid Highway program process on the basis of the authorized levels approved by Congress. These authorization levels are used in many States in working with local governments and the general public to develop multi-year highway projects, and are employed with the State legislature and the Governor for State budgeting purposes. When later on obligation ceilings are then imposed by the Congress that significantly lower authorized highway program levels, a State re-programming process must be undertaken. This is truly needless extra work that is costly, and which sometimes requires going back to local governments and citizens to advise them of project delays or possible cancellations. When this occurs the overall credibility of everyone involved, including members of Congress, is challenged.

Obligation ceilings make it difficult for State and local governments, contractors and all those who want to depend on orderly programming to be effective. They also waste funds that could instead be utilized to provide highway facilities in a timely manner.

Mr. Chairman, it is AASHTO policy that Congress could make the Federal-aid Highway Program more efficient, effective and reliable by taking three specific steps. First, move the Highway Trust Fund off-budget. Second, make the Highway Trust Fund permanent. Third, eliminate the use of obligation ceilings, and let revenues to the Highway Trust Fund and the provisions of the Byrd Amendment control the highway program, as they once did for a decade. These actions would restore predictability and reliability to the Federal-aid Highway program, and help restore public confidence in government's ability to effectively do something about America's highway problems.

The Trust Fund Balance

Mr. Chairman, as you and members of this Committee are well aware, the use of obligation ceilings over the past several years has resulted in the build-up of a large balance in the Highway Account of the Highway Trust Fund. The following Table 1, while it includes necessarily inexact projections for the outyears, summarizes the past and projected performance of the Highway Trust Fund through the September 30, 1991 expiration of the authorizations made in the Surface Transportation and Uniform Relocation Assistance Act (STURAA) of 1987, and the September 30, 1993 termination of the highway user taxes enacted in the same Act.

Among the assumptions in Table 1 are these:

- The Highway Trust Fund is not renewed, but rather is allowed to run its course under the STURAA of 1987.

- No additional authorizations occur beyond those made in the STURAA of 1987, which extend through 1991 except for the Interstate program, which is authorized two years ahead in the STURAA.

The far right hand column of Table 1, labelled "Unpaid Author.," is the total of the outstanding unobligated authority being held by the States. These unobligated balances are regarded by the States as Federal commitments, and have occurred because of the practice of setting obligation ceilings in the Federal-Aid Highway Program at levels lower than the authorization levels established for the year.

TABLE 1

Past and Projected
Receipts and Expenditures in the
Federal Highway Trust Fund
(Highway Account)
(Dollars in Billions)

Year	Tax Income	Interest Income	Total Income	Total Expended	H.T.F. Balance	Unpaid Author.
1956-1986	-------	-------	$178.073	$168.606	$ 9.487	$29.535
1987	$11.793	$ .934	12.727	12.802	9.412	30.597
1988	12.836	.809	13.645	13.133	9.019	31.076
1989	14.359	.776	15.135	13.603	10.551	31.558
1990	13.436	.963	14.399	13.969	10.981	32.132
1991	13.768	.920	14.688	14.032	11.636	32.967
1992	13.597	.827	14.424	12.936	13.263	21.431
1993	13.736	.871	14.607	12.433	15.437	8.998
1994	.325	.742	1.067	4.220	12.284	4.778

Source: Based on Federal Highway Administration data, information from Federal Funds Information For States, and data and information from other sources.

The projected future year income entries are mid-year estimates, which are often adjusted in the first quarter of the following year. This accounts for the expected revenue in 1994, even though the Federal use taxes will have expired on September 30, 1993.

It is to be understood that actual Highway Trust Fund performance for the FY 1991-1994 period may well vary from what is shown, depending on several variables. Among those variables are the interest rate on Federal borrowing during the period, the possibility of additional Congressional authorizations, and the setting of a higher obligation ceiling for one or more of these years. Also not taken into account is the increase in projected FY 1992 highway spending contained in the recently approved House budget resolution, which could result in total highway spending of $15.1 billion, with the obligation ceiling being set at $13.3 billion as opposed to the $12.21 level contained in the President's budget.

But the message of Table 1 is clear, Mr. Chairman. Even if the final 1994 projected Highway Trust Fund balance is off by $1 billion or more, the Highway Trust Fund would end up in 1994 with a true surplus that could be in the range of $5-8 billion. This finding is in full accord with that given to the Subcommittee on Transportation of the Senate Committee on Appropriations

by Victor S. Resendes of the General Accounting Office, when he testified on May 11, 1989, his prediction was for a balance of $7.4 billion.

Mr. Chairman, this means that spending in the Federal-Aid Highway Program can clearly be greater than is now planned. As you are aware, the National Governors' Association and other organizations are proposing an obligation ceiling of $15 billion for FY 1992, which the House moved toward in approving a $13.3 ceiling in the budget resolution. Clearly, the $15 billion obligation ceiling urged by the NGA could be easily supported.

All of this, Mr. Chairman, assumes that the interest income will both be credited to the Highway Account of the Highway Trust Fund, and expended. We believe that is clearly what the 1956 Act intended.

Mr. Chairman, I want to make absolutely clear that AASHTO is not recommending that the Federal-aid Highway Program be allowed to expire in 1991, which is the scenario upon which Table 1 is based. To the contrary, the Association strongly supports that the Federal-aid Highway Program be continued, and funding increased. And as noted earlier, we support making the Highway Trust Fund permanent.

By making the Highway Trust Fund permanent and removing obligation ceilings, unobligated balances of authorizations carried by the States can be worked off over time. This is AASHTO's basic recommendation, and will assure equity to all States in that they will ultimately receive what was authorized for them by this Committee and the Congress. If these actions are not taken, then the unobligated balance problems may need to be addressed in another manner when new surface transportation legislation is enacted by the Congress. The Association is now working to develop recommendations in this area.

The Need For Greater Highway Resources

Mr. Chairman, you have asked what the impact has been on State transportation programs because of the reduced level of funding resulting from the imposition of obligation ceilings and the resultant build-up of the balance in the Highway Trust Fund, and if the revenue to the Highway Trust Fund is adequate to meet highway needs.

The answer to the first of these questions is that States have had to curtail their highway programs because of the Federal funds being withheld in the Highway Trust Fund. In February we made a survey of our member departments as the NGA was undertaking its campaign to obtain a $15 billion obligation ceiling for FY 1992, to determine if the States were prepared to respond to this increased funding level with highway projects and the necessary State matching funds. Nearly all States responded with a strong "yes," with the balance having some technical questions and needing a little time to be certain they could proceed.

With regard to the second question, Mr. Chairman, we testified in March before the Surface Transportation Subcommittee as to our recommendations for the next surface transportation assistance act, citing our "New Transportation Concepts For a New Century" report. In that report and our earlier "The Bottom Line" report, both of which have been filed with the Committee, we found that the current $66 billion annual expenditure level on our 3.9 million miles of streets, roads and highways by all levels of government is not enough

to even maintain current conditions, which would require some $80 billion per year. And if we want to begin to solve our capacity problems and address congestion, then we need to climb to the $100 billion level.

In our recommendations, we believe that the Federal-aid Highway Program should continue to provide at least its current percentage level of support to the nation's roads and highways. We recommend a highway program that would begin at $17.6 billion in FY 1992, and climb progressively to $25.9 billion in FY 1995, a level which should then be sustained.

Mr. Chairman, the present and accumulating balance in the Highway Trust Fund could sustain at least the first two years of the program recommended by AASHTO, assuming that the final version of the Clean Air bill does not cause a revenue hemorrhage because of mandating gasohol as a fuel. If the current 6 cents per gallon gasohol exemption were repealed and if the estimated current $1 billion a year lost to the Trust Fund through fraud could be collected, then at least another year of our program could be funded before a tax increase was needed.

Level of State Effort

Mr. Chairman, before leaving the Highway Account of the Trust Fund, I would like to establish what the record of the States and the Federal-Aid Highway Program has been during the 1980's. This is reflected in the following Table 2, which is based on information taken from the FHWA's "Highway Statistics" publication.

TABLE 2

Comparison of Total State Highway Receipts With the Federal Portion Thereof and Average State Fuel Tax Levels

Year	Total State Highway Receipts	Total Federal Contribution In the Receipts	Federal % of Total State Receipts	Average State Fuel Tax
	(Billions)			(Cents per Gal.)
1980	$25.936	$9.696	37.4%	8.24
1981	25.413	8.456	33.3	9.11
1982	25.003	8.104	32.4	9.11
1983	26.916	8.724	32.4	9.83
1984	29.876	10.540	35.2	10.67
1985	34.862	12.746	36.6	11.11
1986	38.197	12.922	33.8	11.78
1987	39.620	12.240	30.9	12.81
1988	41.569	13.311	32.02	13.42

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The FHWA has not yet released compilations beyond 1988. However, States have continued to increase their fuel taxes, while Federal-Aid Highway Program funding has remained essentially flat. As of 1990 the average State motor fuel tax is above 16 cents per gallon, and over a dozen States now have fuel taxes in excess of 20 cents per gallon. Since the Federal gasoline fuel tax was increased to 9 cents per gallon in 1983, there have been over 90 actions in State legislatures increasing State fuel taxes. Mr. Chairman, the States have been and are continuing to carry their fair share of the costs of America's highway system.

Before leaving Table 2, Mr. Chairman, I want to point out that it only contains information on the State-Federal relationship in the Highway Account. Revenues of local governments, and contributions from the Federal-aid Highway Program toward local government road and highway needs, are not included in the Table.

The Mass Transit Account

Mr. Chairman, turning now to the Mass Transit Account, the picture is similar to that of the Highway Account of the Highway Trust Fund. From the beginning of the Mass Transit Account in FY 1983 through FY 1990, about $9.032 billion in revenue has been attributed to the Transit Account. The following Table 3 illustrates recent performance of the Transit Account.

TABLE 3

Past and Projected Income
and Balances for the
Mass Transit Account of the
Highway Trust Fund

(Dollars in Billions)

Year	Tax Income	Interest Income	Total Income	M.T.A. Balance
1989	$1.269	$.469	$1.738	$6.057
1990	1.311	.552	1.863	6.944
1991	1.345	.581	1.927	7.776
1992	1.408	.771	2:179	9.386
1993	1.432	.843	2.275	10.477
1994	1.454	.907	2.361	11.564

Source: Years 1989-91 taken from 1991 Administration budget
Years 1992-94 taken from CBO tables

In its baseline projections, the CBO report from which years 1992-94 of Table 3 are taken indicates a commitment of $6.002 billion against the 1994 MTA balance of $11.564, which would leave an uncommitted balance of $5.562

billion in the Transit Account. Again, as with the Highway Account, much of the uncommitted balance remaining in 1994 will be as a result of interest credited to the Transit Account.

Mr. Chairman, we believe it was the clear intent of this Committee in 1982 that the full Mass Transit Account funding should be utilized in support of public transportation. This has not occurred, and in fact over the 1980's there has been a sharp decline in overall Federal spending for transit. This has clearly harmed America's public transportation system, at the very time when because of urban congestion and the need to improve air quality more - not less - support for public transportation is required.

As the Association testified before the Surface Transportation Subcommittee in March, we believe that the Federal role in transit should be increased, not decreased. Specifically, we have recommended a Federal transit capital program beginning at $3.5 billion in FY 1992, and climbing to $5.0 billion by 1995, in addition to continuation of operating assistance.

Mr. Chairman, the States have been carrying their fair share of the cost of subsidizing public transportation. While the Federal program has been declining during the 1980's, collectively the States have been increasing their support for transit, to the point where total State support now exceeds the Federal program. Attached is a copy of Table 3 from our 1989 "Survey of State Involvement in Public Transportation" report, which shows total annual State financial assistance to public transportation over a three year period. As stated on this Table 3, total State support increased over the three year period from $3.57 billion in FY 86-87, to over $4.224 billion in FY 88-89.

The accumulated balances in the Mass Transit Account ought to be expended, Mr. Chairman. There is no valid excuse for not doing so. These revenues were collected from highway users, with the pledge that they would be utilized for transportation purposes, not to balance the Federal budget. Because they have not been spent, the nation's public transportation agencies have not been able to provide the level of facilities and services intended by this Committee and the Congress in the STAA of 1982 and the STURAA of 1987.

The Airport and Airway Trust Fund

Mr. Chairman, let me now turn to the Airport and Airway Trust Fund, which as this Committee well knows was established in 1970. The Aviation Trust Fund is funded entirely by user taxes, to pay for the expansion, improvement and maintenance of the nation's air transportation system. However, like with the Highway Trust Fund, the actual appropriations from the Aviation Trust Fund have been considerably less than the revenues which support the fund, again resulting in a large unobligated balance.

Despite a large balance in the Aviation Trust Fund, aviation user taxes were increased in 1982, with the belief and expectation that corresponding increases in appropriations would also be made. This did not occur, and the Trust Fund balance has consequently continued to grow. Now the Administration is proposing yet another increase in aviation user fees, as Congress considers renewal of the Federal aviation program.

It should be self evident to anyone using America's air system that it has severe capacity problems. Those problems would be less if the balance of

the Aviation Trust Fund had been expended as planned over the years, rather than accumulated to help balance the Federal deficit.

Mr. Chairman, AASHTO believes that taxes collected from system users and placed in dedicated trust funds should be promptly and fully used to accomplish the purposes for which they were collected. This is true for both the Highway Trust Fund and the Aviation Trust Fund.

There is a continuing need for a national program of financial assistance for airspace and airport planning and facilities, which should continue to be funded by a system of Federal user taxes.

AASHTO addressed the need for a strong aviation program in its "New Transportation Concepts For a New Century" report. We believe that our expanding aviation needs should be addressed by the expeditious enactment of multi-year aviation reauthorization legislation, which can help provide a dependable and predictable level of funding and allow States and local governments to accurately plan for and accomplish future projects. We also believe that the balance in the Aviation Trust Fund should be fully utilized to meet the needs of our aviation system, in such legislation.

Mr. Chairman, Willard Plentl, Jr., the Vice-Chairman of our Standing Committee on Aviation, testified before the Aviation Subcommittee on February 6, 1990, and in that testimony described AASHTO's recommendations for our Federal aviation program. Therefore, I will not comment further in this testimony.

Removal of the Highway and Aviation Trust Funds From the Unified Federal Budget

Mr. Chairman, lying at the root of the large balances carried in the Highway and Aviation Trust Funds is their presence in the Unified Federal Budget, where the accumulated Trust Fund balances are effectively utilized to screen the true budget deficit. It is AASHTO policy that both of these Trust Funds should be removed from the Unified Federal Budget, so that they can function as intended and not be utilized for "smoke and mirrors" Federal budget bookkeeping.

We believe that it is inappropriate to subject these dedicated Trust Funds to the annual Congressional budget resolution processes of the Unified Federal Budget. Since the user fees included in the Trust Funds are collected in advance of expenditures, these expenditures cannot in fact contribute to the Federal deficit. When the user tax collections and the interest earned on unspent balances exceed the rates of expenditure arbitrarily set by obligation ceilings and the budget process, America's transportation system is being ill served.

Every American can personally observe the impact of inadequate highways on his or her everyday life. When unrelieved traffic congestion requires a doubling or more of commutation time, this is time lost to other activities. For working men and women who must drive from location to location, such as salespersons, time spent waiting in traffic is lost productive time.

Increasingly, State transportation and economic development officials are relating instances where industrial companies have made locational

decisions on the basis of traffic congestion, a situation that will increase now that the just-in-time production philosophy is being adopted by many companies wherein supplies are delivered to a factory just before they are required on the production line. Many governments can also relate instances where industrial enterprises were lost to them, because they could not assure provision of adequate highways; these instances result in lost tax revenues.

It is also evident that poor highways contributed to accidents that kill or injure people. When injuries occur time is often lost from the job, again affecting productivity. The resulting grief and pain, aside from all our concerns about its human aspects, affect productivity.

Clearly, Mr. Chairman, the overall interests of our nation require that we use, not simply accumulate, the balances in the Highway Account and the Mass Transit Account of the Highway Trust Fund.

Similarly, the balances that have accumulated in the Aviation Trust Fund need to be spent, to relieve our aviation problems and to help make America more competitive.

Summary

Mr. Chairman, we commend the Committee for conducting this hearing. We clearly must put "Trust" back into both our Highway and our Aviation Trust Funds. We must end the arbitrary restraints placed on spending from these Trust Funds by obligation ceilings, restraints which are very disruptive to the orderly planning of transportation projects, which cause waste and inefficiency, and which damage the image of government when the word "Trust" is violated in the administration of these funds collected from transportation users.

In addition, Mr. Chairman, we need to increase the overall level of Federal support for highways, public transportation and aviation. The States have been providing substantially increased funding over the past decade, and we believe our Federal partners should do the same.

Mr. Chairman, I will be pleased to respond to questions, now, or later in writing.

# # #

TABLE 3

TOTAL ANNUAL STATE FINANCIAL ASSISTANCE FOR PUBLIC TRANSPORTATION
FY 87-89

STATE	BUDGET PERIOD	FY 86-87	FY 87-88	FY 88-89
Alabama	Oct. to Sept.	416,875	0	0
Alaska	July to June	0	0	0
Arizona	July to June	12,091,417	12,091,417	12,005,425
Arkansas	July to June	320,992	150,000	235,000
California	July to June	551,886,800	547,544,600	602,043,259
Colorado	July to June	0	0	0
Connecticut	July to June	78,158,703	87,190,133	95,638,887
Delaware	July to June	7,463,730	8,224,287	5,800,800
D.C.	Oct. to Sept.	91,800,000	101,500,000	107,000,000
Florida	July to June	9,834,500	23,991,500	28,886,000
Georgia	July to June	149,590,505	161,771,389	169,586,359
Hawaii	July to June	0	190,000	530,000
Idaho	July to June	0	0	0
Illinois	July to June	175,927,300	157,496,700	143,636,960
Indiana	July to June	15,914,782	16,642,299	18,487,022
Iowa	July to June	2,728,346	3,273,270	4,676,608
Kansas	July to June	0	0	0
Kentucky	July to June	0	0	521,321
Louisiana	July to June	3,522,000	0	0
Maine	July to June	400,000	400,000	400,000
Maryland	July to June	211,949,037	185,363,036	271,066,348
Massachusetts	July to June	300,673,059	334,916,230	336,620,784
Michigan	Oct. to Sept.	98,353,700	130,099,891	126,925,509
Minnesota	July to June	24,628,400	26,250,000	27,474,000
Mississippi	July to June	11,000	11,000	26,491
Missouri	July to June	1,078,755	1,471,755	1,471,755
Montana	July to June	69,825	71,250	71,250
Nebraska	July to June	1,400,000	1,400,000	1,150,000
Nevada	July to June	368,400	380,000	320,000
New Hampshire	July to June	0	0	0
New Jersey	July to June	178,500,000	205,450,000	214,463,000
New Mexico	July to June	0	0	0
New York a	April to March	1,041,147,000	1,199,828,000	1,346,858,000
North Carolina	July to June	1,845,000	1,499,469	1,847,037
North Dakota	July to June	0	0	0
Ohio	July to June	33,534,357	27,143,531	27,989,273
Oklahoma	July to June	212,000	223,000	708,467
Oregon	July to June	9,271,163	6,857,054	12,917,216
Pennsylvania	July to June	343,190,000	365,296,000	368,049,089
Puerto Rico	July to June	0	17,803,077	17,803,077
Rhode Island	July to June	11,551,000	13,378,574	14,165,286
South Carolina	July to June	0	0	0
South Dakota	July to June	0	0	0
Tennessee	July to June	7,600,000	7,600,000	8,400,000
Texas	Sept. to Aug.	3,148,379	1,822,703	2,877,297
Utah	July to June	24,080,000	23,480,000	25,195,000
Vermont	July to June	270,148	478,045	623,527
Virginia	July to June	53,959,101	68,412,575	84,521,700
Washington	July to June	76,828,000	84,575,000	94,414,100
West Virginia b	July to June	1,231,125	1,108,818	1,073,269
Wisconsin	Jan. to Dec.	47,854,018	48,465,506	50,104,511
Wyoming	July to June	0	0	0
TOTAL (States)		$3,570,407,415	$3,889,930,109	$4,224,383,627
Ontario, Canada	March to April	468,043,000	553,001,000	613,754,000

a. Calendar Year 1988 figures.
a. See comment Table 1.

United States General Accounting Office

GAO Testimony

For Release
on Delivery
Expected at
10:00 a.m. EDT
Tuesday
May 8, 1990

Operations of and Outlook for the Transportation Trust Funds

Statement of
John W. Hill, Jr.
Associate Director, Transportation Issues
Resources, Community, and Economic
Development Division

Before the Subcommitte on Investigations
and Oversight
Committee on Public Works and
Transportation
United States House of Representatives

GAO/T-RCED-90-78

GAO Form 160 (12/87)

Mr. Chairman and Members of the Subcommittee:

I am pleased to have this opportunity to testify on the operations of and outlook for the Highway and Airport and Airways trust funds. As your committee examines how best to use the revenues credited to the trust funds, items warranting attention include unexpended balances as well as trust fund revenues that could be made available to meet our burgeoning surface and air transportation needs.

As you know, critical needs confront the nation's highway and bridge network. Yet, a $10.6 billion balance exists in the Highway Account of the Highway Trust Fund. Why? The primary reason is that limitations are placed on the amount of funds states are allowed to obligate. In addition, states have not used an estimated $1 billion in the trust fund revenues available to be obligated. State officials told us they do not use these funds primarily because they provide a cushion against an uneven flow in federal funds. Under recent projections, the trust fund balance at the end of its life will exceed outstanding commitments by an estimated $6.4 billion. This means that a one-time increase in authorizations of $3.4 billion is possible while still retaining a safety cushion of $3 billion in the fund--the maximum federal transportation officials believe is required to provide for unforseen disruptions to highway taxes or inaccurate revenue projections. Finally, to prevent future build-ups in the trust

fund balance, obligation ceilings should more closely approximate expected income--revenues and interest--to the trust fund.

The nation's aviation needs are similarly critical. The administration has proposed raising user fees to fund future Federal Aviation Administration (FAA) equipment and operations costs. However, air traffic control modernization requirements, by themselves, do not necessitate an increase in user fees. In the near-term, the fund can accommodate a greater share of the agency's operations expenses without increasing fees--albeit not at the spending level proposed by FAA. An increase in user fees will be needed in the fiscal year 1994 time frame to support the agency's proposed spending plans for equipment and operations.

My testimony today will focus on the operations of each of the trust funds, including yearly revenue and expenditure streams; reasons for the buildups in the two funds' balances; and our observations on the process for drawing down the balances. Unfortunately, the severity of the general fund deficit has made the concept underlying trust funds--that revenues be spent for their intended purpose--quite different in reality, because various trust fund balances are used to mask the deficit. In the current budget environment, the reality is that any accelerated drawdown of the Highway and Aviation Trust Fund balances can be accomplished only by increasing the deficit or at the expense of other federal programs.

Starting with the Highway Trust Fund, I will focus first on the Highway Account.

HIGHWAY TRUST FUND--THE HIGHWAY ACCOUNT

The federal Highway Trust Fund was established in 1956 as a mechanism to support and expand the rapidly growing Federal-Aid Highway Program. The program includes the Interstate, primary, secondary, and urban highway systems, and accounts for over 80 percent of all vehicle miles travelled.

The trust fund is funded through user fees such as the federal 9-cent per gallon gasoline tax, taxes on tires, heavy vehicle-use taxes, and interest on the trust fund balance. This fund is used to reimburse state governments for money spent improving the federal-aid highway system. The federal government generally pays 75 percent of a project's cost, although for some projects, such as on the Interstate system, the federal share may be as high as 90 percent.

The trust fund is reauthorized periodically, most recently in 1987. The 1987 Highway Act authorized roughly $14 billion in funds for the Federal-Aid Highway Program for each year through fiscal year 1991. Most federal programs require congressional authorizations to be followed by appropriations that grant

approval for spending or obligating program funds. Programs within the federal-aid highway system, however, generally bypass this two-step process. Rather, federal-aid authorizations are made available for obligation[1] without appropriations through what is called "contract authority."

However, not all authorized funds may be available in a given year for states' use. The Congress may impose obligation ceilings on authorized highway funds, which, according to the Department of Transportation (DOT), are part of an overall effort to control federal spending. For instance, while $22.1 billion was available for highway programs in fiscal year 1989, the obligation ceiling was set at $12.2 billion for that year. With the exception of $2.2 billion available for programs exempt from the ceiling, the total of states' commitments for highway projects could not exceed $12.2 billion.

Highway and Bridge Needs Are Escalating

Difficult decisions face the Congress on the amount of federal funds that should be directed to highway and bridge needs. For instance, the Interstate Highway System is vital to our transportation network, as it carries slightly more than 20 percent

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[1]An obligation is a commitment of the federal government to reimburse states for the federal share of a project's eligible cost.

of vehicle traffic. DOT statistics show that over 40 percent of the Interstate is in barely tolerable or worse condition. Further, the federal Interstate preservation program, commonly known as the Interstate 4R program, is currently funded at $2.8 billion a year, but the Department of Transportation (DOT) estimates $4.2 billion to $5.5 billion will be needed annually through the year 2005 in federal funds for this program, if the federal cost share remains the same.

In addition, the number of deficient bridges on the federal-aid system has grown since 1982. Bridge deficiencies on the federal-aid system increased from about 70,000 to 77,000 from 1982 to 1988, according to DOT statistics. Much of this increase is due to the rapid growth in deficient Interstate bridges. Federal transportation statistics show an increase in deficient Interstate bridges from approximately 4,900 in 1982 to almost 8,200 in 1988.

Build-up in the Highway Trust Fund Balance

In the first 12 years of its existence, the trust fund balance remained at $1 billion or less. (See fig. 1.) After a rapid growth in the 1970s, the balance peaked at $12.6 billion in 1979. Through fiscal year 1989 the trust fund has accumulated revenues and interest totaling $219.6 billion and has made available $209 billion to the states. The current trust fund balance is

$10.6 billion, with projections estimating a 1991 trust fund balance of $11.6 billion.

The effect of trust fund revenues and expenditures on the trust fund balance is illustrated in figure 2. The dashed line represents income to the trust fund. From 1983 to 1989 income to the trust fund has generally increased. The heavy line indicates expenditures from the fund which were at times greater than, equal to, and less than income. The thinner line represents the trust fund balance. The trust fund balance represents the excess of trust fund income over expenditures.

Since the beginning of the trust fund in 1956, the interest earned has totaled $14.7 billion through 1989. In recent years, interest earned has ranged from $800 million to $1.1 billion per year. We see no distinction in revenues credited from user receipts and revenues credited as interest income in terms of the amounts to be made available from trust fund balances.

Reasons for the Build-up in the Highway Trust Fund Balance

The Highway Trust Fund balance exists, in large part, because of funds that are not obligated for highway projects. These unobligated funds occur for several reasons. (See fig. 3.) A primary reason accounting for the Highway Trust Fund balance is congressionally established obligation ceilings, which constrain

the federal funds available for states to spend on highway projects. The funds that are restricted from states' use accumulate in the trust fund, contributing to the growth in the fund's balance. In fiscal year 1989, the Highway Trust Fund balance was $10.6 billion and ceilings accounted for approximately $8 billion of the balance.

Another explanation for the trust fund balance is that states did not obligate approximately $1 billion in funds they had accumulated that were exempt from obligation ceilings. State officials said they have held on to these funds primarily to protect themselves against an uneven flow of federal funds.

Obligations Ceilings Constrain States' Spending

The authorization of federal-aid highway funds is not a guarantee that those funds will be available for states to use in a given year. In the late 1960s, the administration instituted impoundments, which temporarily forced states to delay obligations. About a decade later, these impoundments were replaced by congressionally set obligation ceilings. The effect was the same--both restricted states from obligating the total amount of funds authorized.

For instance, in 1983 the obligation ceiling, set at $12.4 billion, permitted states to spend close to the amount

originally authorized by the Congress. In 1989 the obligation ceiling was set at approximately $2 billion below the original authorization, according to DOT records.

To exacerbate the situation, the funds that are restricted from obligation in one year carry over to the next year. Although these unobligated funds could be made available in addition to new authorizations in the next year, newly imposed obligation ceilings restrict states from spending these funds. (See fig. 4.) The result is that the margin between funds which states may obligate as defined by the ceilings, and the funds which could be available for state spending, continues to widen.

If the states were permitted to obligate more federal-aid funds, several indicators point to states' ability to provide the necessary matching funds. I would like to make note of two such indicators--annual requests for additional obligation authority and states' use of a procedure that enables them to start projects without obligating federal funds. A redistribution of obligation authority occurs annually after August, at which time obligation authority released by some states is given to states requesting additional authority. For fiscal years 1987 through 1989, states requested between $2.4 billion and $2.8 billion in additional obligation authority, although approximately $800 million was actually available for redistribution. Over the 3-year period, states' requests totaled nearly $8 billion.

States are able to advance the construction of approved federal projects prior to receiving obligation authority. In essence, under advance construction procedures states use their own funds until additional federal obligation authority becomes available. When it does become available, states convert the projects to the appropriate federal program categories and funds are obligated to cover the federal share of project costs. Since 1987 the advance construction balance ranged between $2 billion and $2.6 billion.

Some Highway Programs Are Exempt From Obligation Ceilings

The Congress also authorizes highway funds which it exempts from the obligation ceilings. When the Congress exempts programs from the obligation ceilings, it permits states to spend 100 percent of the funds authorized for that program. Exempt funds represent a small portion of the entire highway program. For instance, since 1983 the amount of funds not subject to obligation ceilings has ranged annually from approximately $700 million to $2.2 billion. The Congress may designate any number of programs as exempt, and may change the categories from year to year.

The most significant exemptions from obligation ceilings, in dollar terms, are the minimum allocation program and demonstration projects. The minimum allocation program guarantees that states

receive back at least 85 percent of their revenue contributions to the trust fund. In fiscal year 1990, 19 states received minimum allocation funds. Minimum allocation funds account for approximately 67 percent of the exempt funds, and demonstration projects account for 31 percent. The remaining 2 percent is comprised of a variety of small programs.

Although states are free to use all of these funds, the unused amount has grown from $0.2 billion in fiscal year 1983 to the fiscal year 1989 level of approximately $1 billion. (See fig. 5.) The bulk of this $1 billion is composed of minimum allocation funds, which, according to state transportation officials, are held by states as protection against an uneven flow of federal funds. Saving these funds is particularly attractive to states because minimum allocation funds may be used in a variety of program areas, unlike other highway funds, which are generally restricted to use within a specific road system.

The Fund Could Support a Higher Authorization Level

A common belief is that the trust fund balance represents a surplus. This view, however, is not accurate since the balance plus projected future revenues will be needed to cover commitments.

For instance, the fiscal year 1989 trust fund balance of $10.6 billion is needed to cover commitments (unpaid authorizations), but

it is not sufficient to cover all outstanding amounts that were authorized through 1989. The authorized amounts outstanding, including those constrained from state spending through obligation ceilings, totaled about $31.6 billion in fiscal year 1989. Consequently, an apparent shortfall of $21 billion exists.

This situation, however, is permitted because when the Congress established the trust fund, it also established a safety mechanism to ensure that sufficient funds would be available to liquidate commitments at the end of each fiscal year. As revised by the Surface Transportation Assistance Act in 1982, the Byrd Amendment now permits the total projected commitments at the end of the fiscal year to exceed the trust fund balance so long as income projected for the following 2 years is sufficient to cover the difference.

In a May 1989 report to the Senate Appropriations Committee, we pointed out that the trust fund could support a higher level of program activity because future total revenues over the fund's authorized life are expected to exceed the level of future authorized commitments. At the time of our review, the anticipated amount of funds in excess of all commitments was $7.4 billion.

Federal transportation officials, however, believe that a safety cushion of between $1 billion and $3 billion would be necessary to guard against unforeseen disruptions to highway tax

revenues or inaccurate revenue projections. Further, since the time of our review, $1 billion in Emergency Relief funds was authorized because of the highway and bridge damage caused by the October 1989 Loma Prieta earthquake in California. Assuming a conservative safety cushion of $3 billion and taking into account the additional $1 billion authorized, the trust fund could support $3.4 billion in additional authorizations.

Now I would like to address the Mass Transit Account of the Highway Trust Fund.

Highway Trust Fund--Mass Transit Account

The Highway Revenue Act of 1982 established a special Mass Transit Account (MTA) in the Highway Trust Fund to fund several Urban Mass Transportation Administration (UMTA) grant programs, including the Section 3 Discretionary Grants and Section 8 Planning Grants programs. MTA receives revenues from 1 cent of the motor fuel tax. Through fiscal year 1991, MTA is expected to receive income of about $13.5 billion. However, about 28 percent, or $3.8 billion, of the MTA funds have either not been authorized to be obligated ($3.1 billion) or not been obligated by UMTA because of appropriations limitations ($.7 billion).

Of the approximately $13.5 billion MTA received in income, the Congress has provided permanent contract authority to obligate

$10.4 billion through fiscal year 1991. However, the annual appropriations process has placed limitations on obligations of the MTA funds to about $9.7 billion. Consequently, UMTA is not authorized to obligate about $3.8 billion.

UMTA is expected to obligate all of the $9.7 billion MTA funds authorized to be obligated and to incur expenditures totaling about $5.7 billion through fiscal year 1991. Therefore, about $4 billion of the obligations are not expected to be funded at the end of fiscal year 1991. This occurs because obligated funds remain available until expended, and expenditures for some projects, such as construction of new transit systems, are incurred over a number of years.

Finally, the MTA balance at the end of fiscal year 1991 is expected to be $7.8 billion. However, about $4.0 billion of this balance is committed to prior years' obligations that have not been funded. As previously discussed, the remaining MTA balance consists of the $3.8 billion funds not authorized to be obligated.

Now I would like to address the Aviation Trust Fund.

AIRPORT AND AIRWAY TRUST FUND

The Airport and Airway Trust Fund, also known as the Aviation Trust Fund, was established in 1970. The trust fund is financed by

excise taxes levied on air passengers, air cargo, and general aviation fuel. The fund supports all airport grants and capital improvements, such as new radars and traffic control towers. Within certain limits set by the Congress, some of the remaining money can be used to cover the FAA's operations expenses. That portion of FAA's operations expenses not paid from trust fund revenues must be financed from the general funds of the U.S. Treasury. The income generated by the trust fund--revenues and interest--is shown in figure 6.

Use of the Trust Fund

Generally, receipts have exceeded trust fund spending. The current $14.6 billion balance exceeds outstanding commitments by more than $7.6 billion, and, in that sense, the fund has a surplus. (See fig. 7.) This surplus traces to congressional restrictions on spending for FAA operational expenses and to slower spending on air traffic control modernization than authorized by the Congress because of delays in project development.

Trust fund expenditures for operations have been restricted since 1971. Although the Congress has allowed FAA to spend aviation user fees to cover operations expenses since 1976, there are limits on how much the trust fund can contribute for operations. The overall cap on trust fund spending for operations

is much less than the burden created by the system's users.[2] The maximum allowable amount that may be spent for operations is further reduced if spending targets for capital programs are not met. If it were not for these limitations, there would be no surplus. In fact, if the users paid for all the costs occasioned by their use, then the trust fund would be running a deficit of more than $1 billion annually.

In a 1988 study the Congressional Budget Office concluded that private aviation (commercial and general) operations are responsible for about 85 percent of the costs of FAA's aviation programs, while public aviation (primarily military) operations are responsible for the remaining 15 percent. In 1988 three-fourths of FAA's operations expenses were paid by the General Fund. Had private sector users covered all of the costs associated with their use, only one-fourth would have been paid by the General Fund.[3]

Reasons for Build-Up in Trust Fund Balance

In addition to the overall cap on spending for FAA's operations, there is also a penalty provision that reduces the

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[2]Trust fund spending for operations is currently capped at an amount equal to 50 percent of the total amounts available for airport grants, facilities and equipment, and research and development.

[3] The Status of the Airport and Airway Trust Fund, Congressional Budget Office, Washington, D.C., Dec. 1988.

maximum amount that can be spent for operations in proportion to any shortfall in spending on capital programs.[4] If not for this penalty clause, the trust fund, rather than general revenues, would have been used to fund $6.6 billion for FAA operations between 1983 and 1990.[5] These unspent funds plus their accrued interest--$2.1 billion--equal $8.7 billion. This exceeds the estimated fiscal year 1990 surplus of $7.6 billion surplus by over $1 billion.

The Congress responded to the growing trust fund balance by adopting the trigger tax provision of the Airport and Airway Safety and Capacity Expansion Act of 1987. While the spending cap limits trust fund outlays for FAA's operations costs, the trigger tax provision reduces trust fund taxes, and therefore income to the fund, by 50 percent, if capital spending fails to meet congressional targets.[6] The Congress chose to postpone activating the trigger tax until next year.

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[4]In the Airport and Airway Safety and Capacity Expansion Act of 1987, the penalty clause reduced the amount of FAA's operating costs that could be covered by the trust fund. The annual maximum amount for operations is reduced by twice the amount by which the actual amounts made available for these programs fall short of levels specified in the law.

[5]Furthermore, aviation excise tax revenues of $1.18 billion in fiscal year 1981 and $1.04 billion in fiscal year 1982 were not credited to the trust fund, but remained in the general fund.

[6]The trigger provision reduces aviation excise taxes by 50 percent if the sum of the obligation limits for airport grants and appropriations for facilities and equipment acquisition and research and development for 1988 and 1989 is less than 85 percent of the total amounts the Congress authorized.

Finally, the trust fund balance is large because FAA has experienced delays in modernizing the nation's air traffic control system. Initiated in 1981, FAA's National Airspace System (NAS) Plan was designed to replace computer, radar, and communication equipment. Our prior work has found that the delays have resulted primarily from unrealistic initial schedules and problems in developing new technologies.[7] System development delays are related to FAA's underestimating (1) the complexity of highly automated systems, (2) the time needed to develop system software, and (3) the interdependencies among systems. In addition, contractors have been unable to perform on schedule.

Major systems whose schedules suffered major delays include the $4.4 billion Advanced Automation System, the $892 million Voice Switching and Control System, and the $495 million Mode S Communications System. Modernization problems have led to the accumulation of unspent balances in the trust fund. In addition, initial cost estimates are rising. This will significantly impact future trust fund expenditures. FAA now projects that the NAS Plan will cost $4 billion more than the original $12 billion estimated. Furthermore, because more projects are being added, total air traffic control modernization costs will be even greater. Indeed, if the costs of all associated projects to modernize the system are included, the total will be about $27 billion through the year

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[7] Issues Related to an Independent FAA (GAO/T-RCED-88-45, June 2, 1988).

2000.[8] FAA now acknowledges that modernization will need continuous funding, and not end in 1991 as its preliminary cost-benefit analysis for the NAS Plan indicated.

This year, the administration is proposing that the trust fund be used to cover 85 percent of FAA's total budget beginning with fiscal year 1991--thereby eliminating the general fund subsidy. In fiscal year 1990, the trust fund is expected to pay for only about 58 percent of FAA expenditures. To meet this expanded use of the trust fund and to pay for modernization, the administration has proposed raising passenger ticket taxes, which form a large bulk of such fees, from 8 to 10 percent.

Increased modernization costs and expanded use of the trust fund to pay for operations expenses--albeit not at the level desired by the administration--do not necessarily require an immediate increase in user fees. Figure 8 illustrates how current trust fund user fee revenues combined with existing uncommitted balances could be used to cover 75 percent of the entire FAA budget. Fees must be increased only if the fund is relied on to cover 85 percent of the FAA budget. Indeed, the surplus would be depleted by fiscal year 1994 if fees are not increased and proposed expenditures are maintained. On the other hand, if the trust fund's share of FAA's expenses is maintained at the current level of about 58 percent and if user fees continue at the existi

[8]FAA Appropriation Issues (GAO/T-RCED-89-20), Apr. 4, 1989).

levels, the surplus could rise to about $11 billion in fiscal year 1995.

This concludes my testimony. I will be glad to answer any questions at this time.

Figure 1

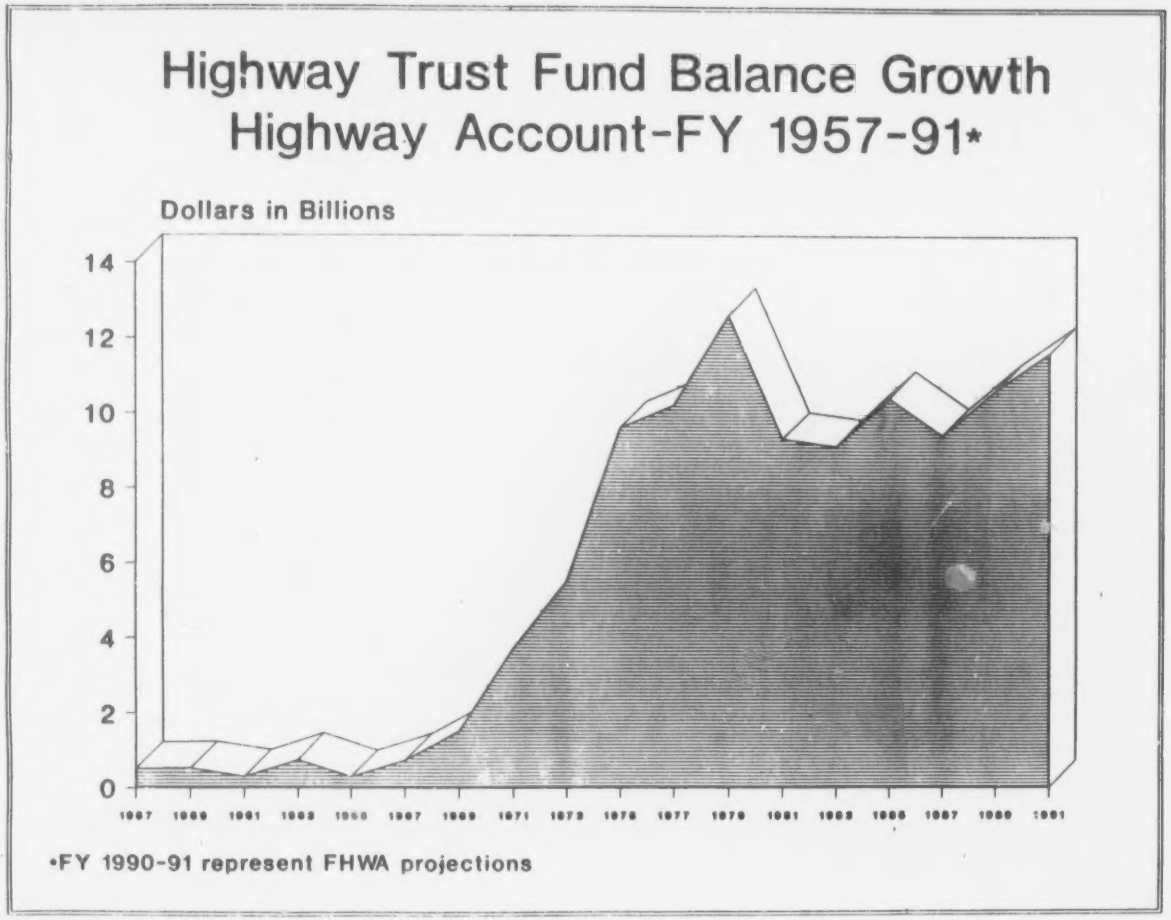

Highway Trust Fund Balance Growth
Highway Account-FY 1957-91*
Dollars in Billions
14
12
10
8
6
4
2
0
1957
1959
1961
1963
1965
1967
1969
1971
1973
1975
1977
1979
1981
1983
1985
1987
1989
1991
*FY 1990-91 represent FHWA projections

Figure 2

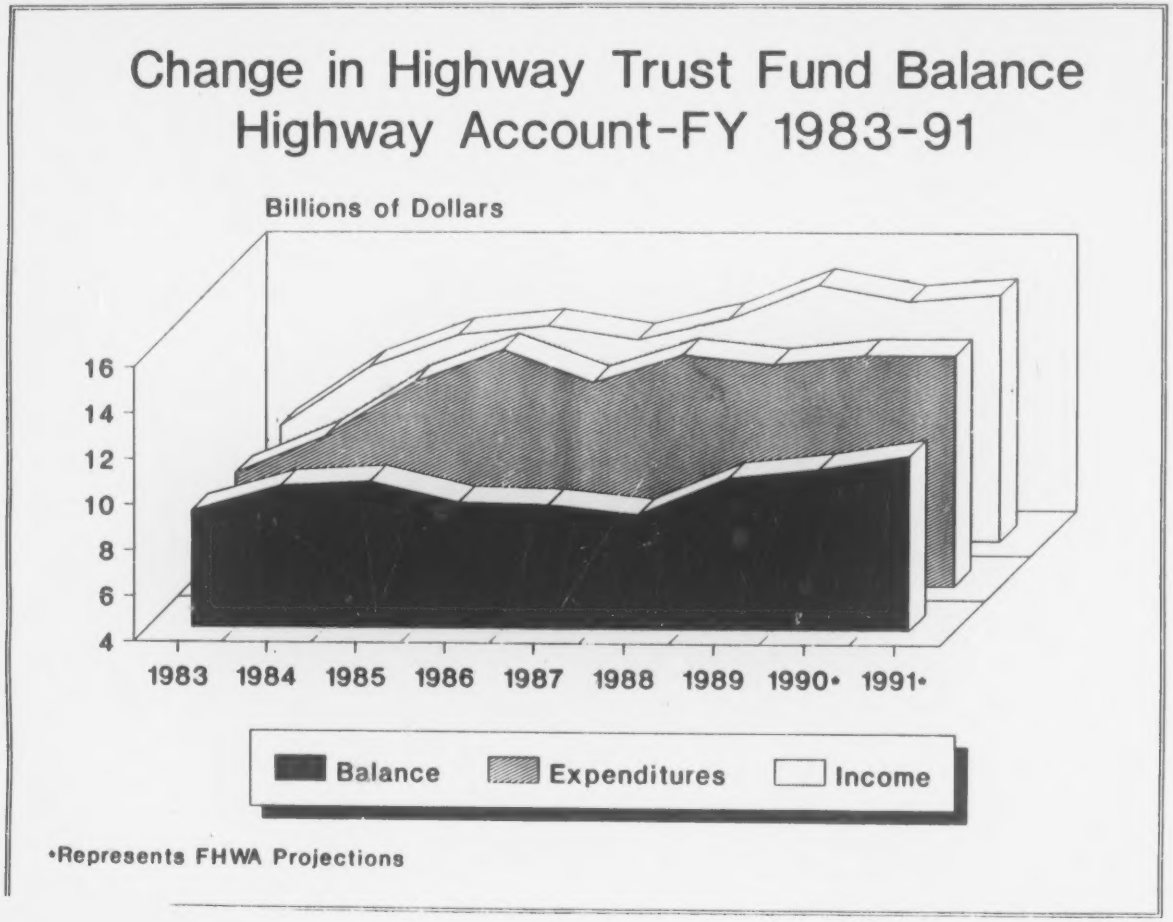

Change in Highway Trust Fund Balance
Highway Account-FY 1983-91
Billions of Dollars
16
14
12
10
8
6
4
1983
1984
1985
1986
1987
1988
1989
1990•
1991•
Balance
Expenditures
Income
•Represents FHWA Projections

Figure 3

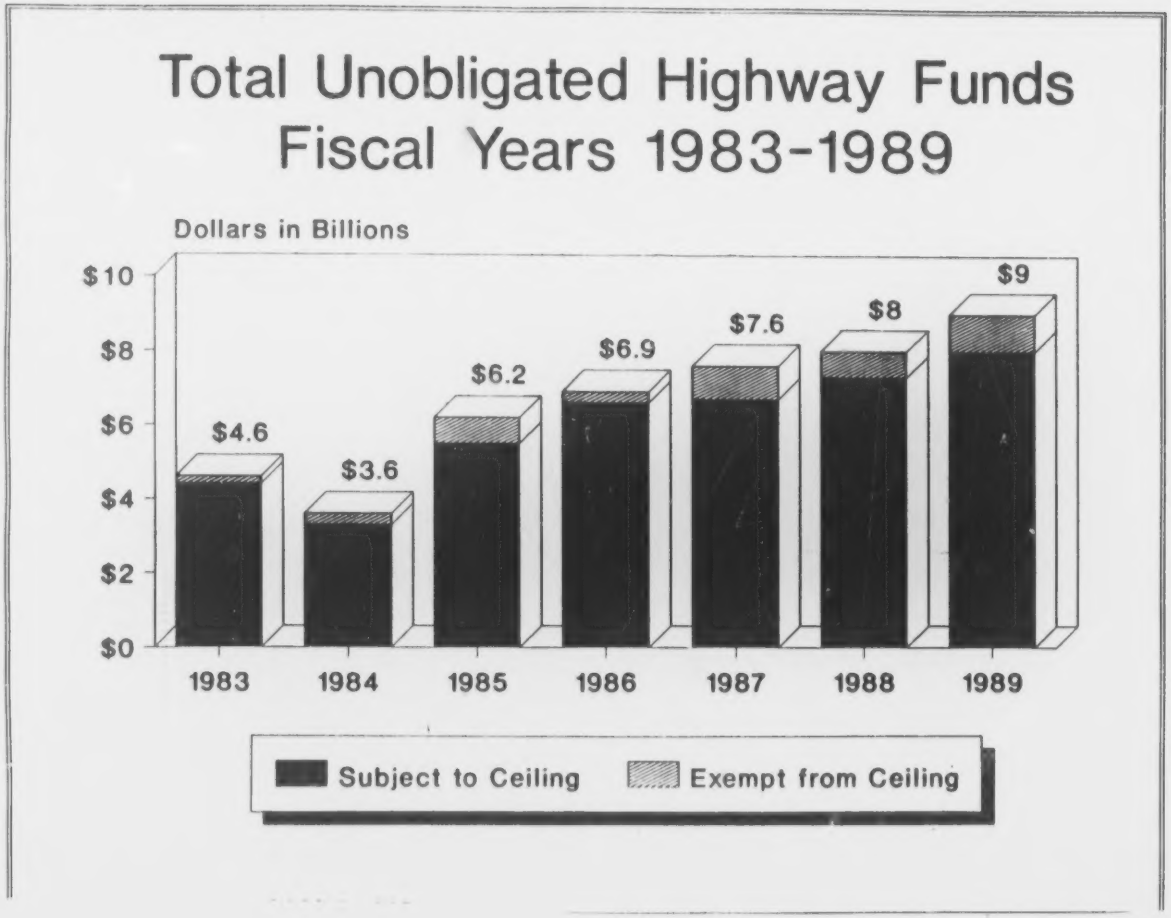

Total Unobligated Highway Funds
Fiscal Years 1983-1989
Dollars in Billions
$10
$8
$6
$4
$2
$0
$4.6
$3.6
$6.2
$6.9
$7.6
$8
$9
1983
1984
1985
1986
1987
1988
1989
Subject to Ceiling
Exempt from Ceiling

Figure 4

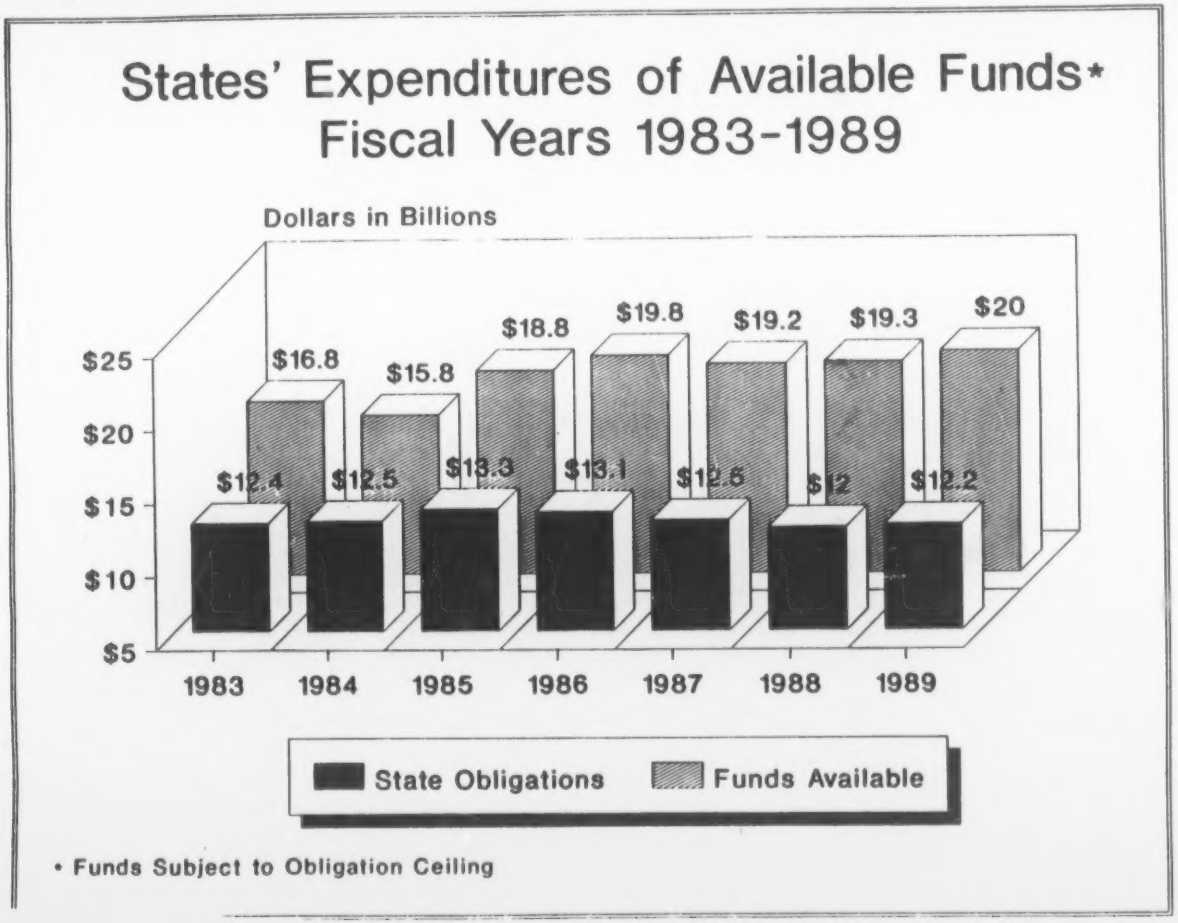
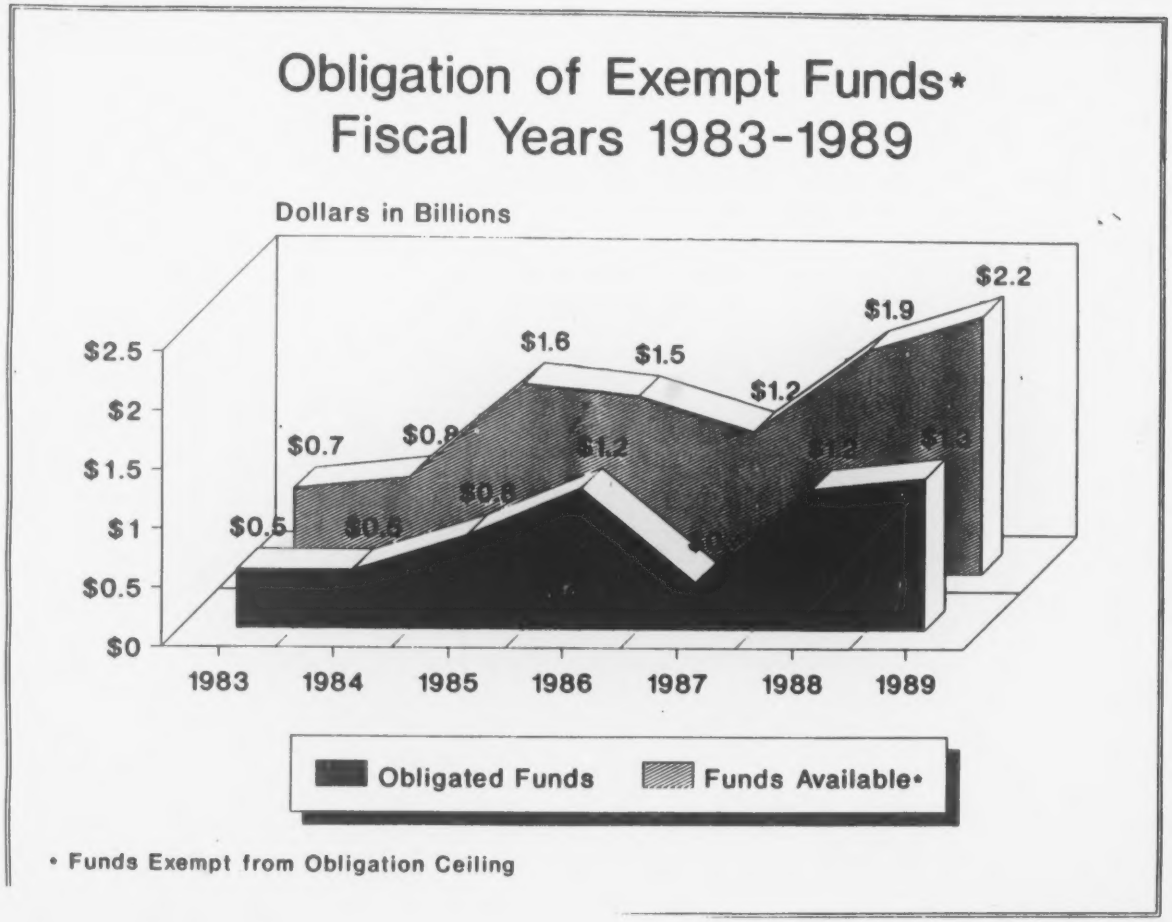
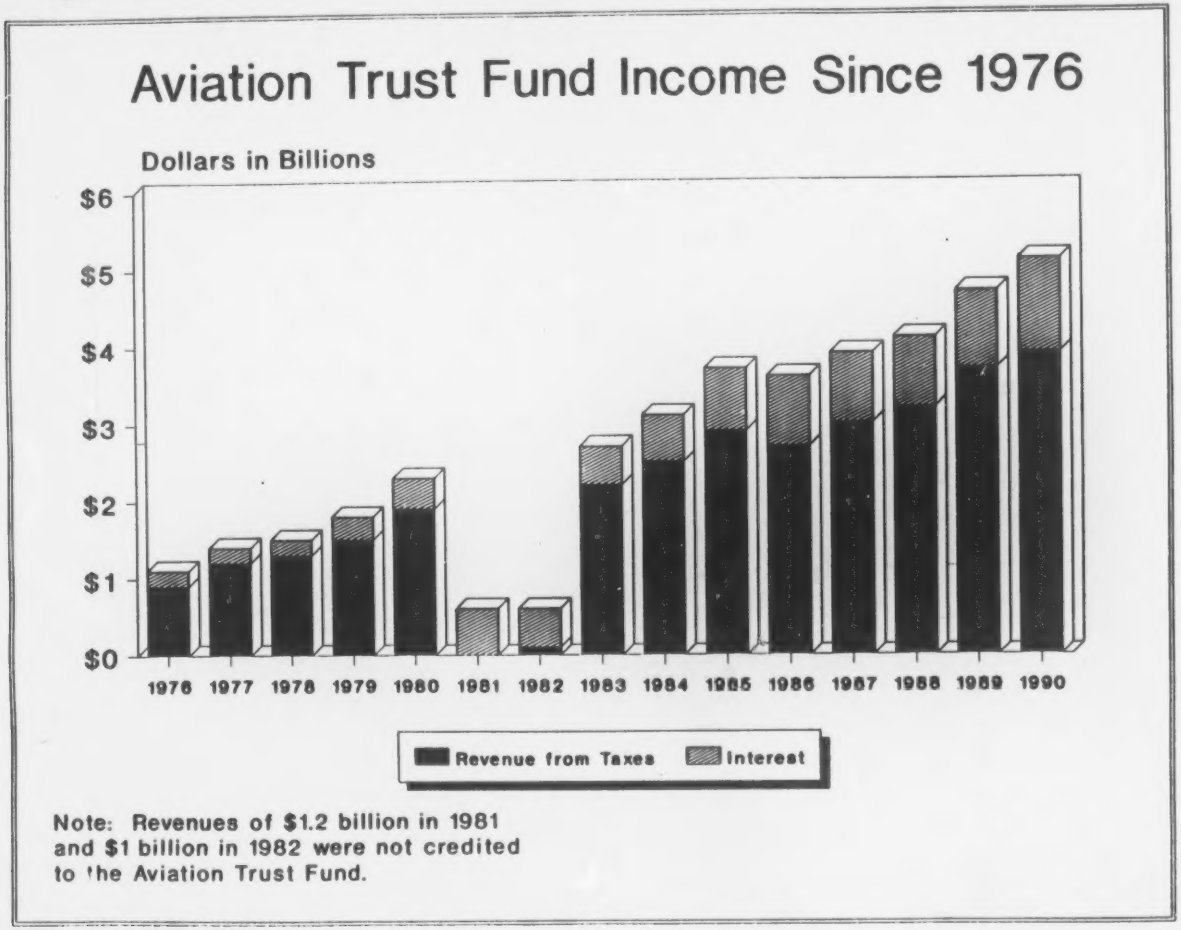

States' Expenditures of Available Funds*
Fiscal Years 1983-1989
Dollars in Billions
$25
$20
$15
$10
$5
$16.8
$15.8
$18.8
$19.8
$19.2
$19.3
$20
$12.4
$12.5
$13.3
$13.1
$12.6
$12
$12.2
1983
1984
1985
1986
1987
1988
1989
State Obligations
Funds Available
* Funds Subject to Obligation Ceiling

Figure 5



* Funds Exempt from Obligation Ceiling

Figure 6



Note: Revenues of $1.2 billion in 1981 and $1 billion in 1982 were not credited to the Aviation Trust Fund.

Figure 7

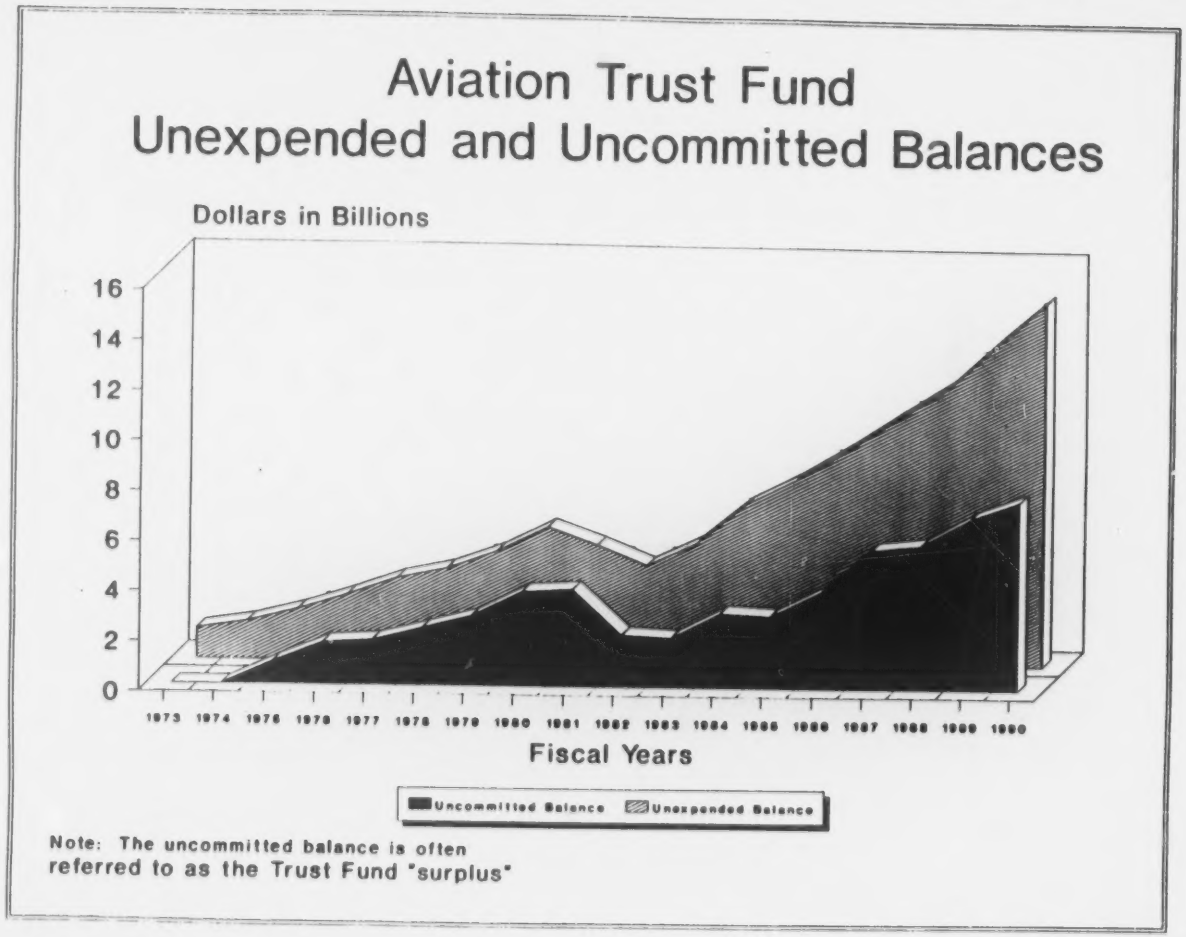


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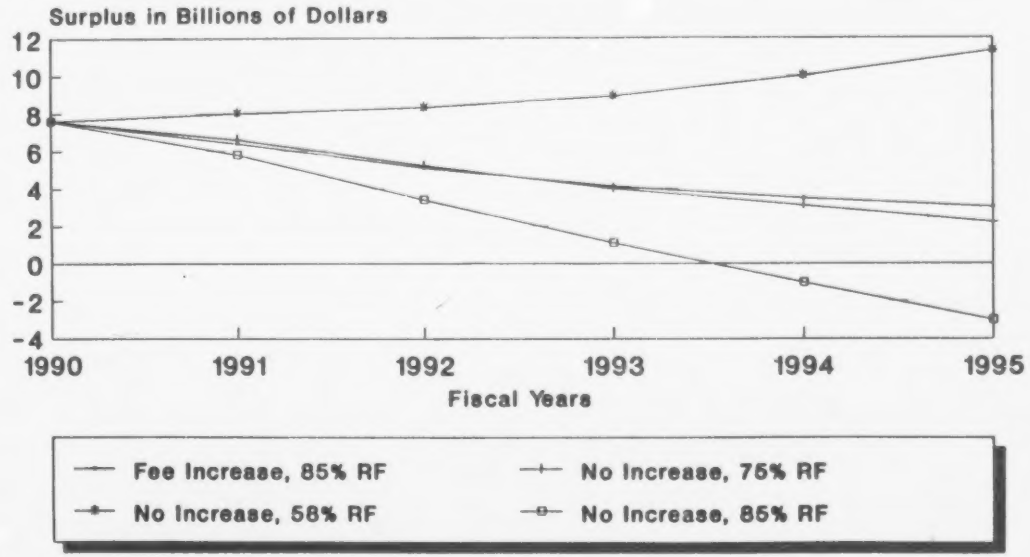
Figure 8

Impact of Fee Increases and Recovery Factors on the Aviation Trust Fund



Note: The Recovery Factor (RF) is the percentage of FAA's needs paid by the Aviation Trust Fund.

Statement of

Lester P. Lamm, President

Highway Users Federation

to the

Investigations & Oversight Subcommittee

of the

House Public Works and Transportation Committee

U.S. House of Representatives

on the

Status of the Highway Trust Fund

May 8, 1990

1776 Massachusetts Avenue N.W. Washington D.C. 20036-1993 (202) 857-1200

Mr. Chairman and members of the subcommittee, I am very pleased to be here today. I share the concern you have expressed over the way in which the Highway Trust Fund is administered and I congratulate the Subcommittee for these oversight hearings. I appreciate the opportunity to discuss hoe best to utilize the revenues generated by the Trust Fund.

The Highway Users Federation is a national coalition of businesses, industries and associations, working to improve the safety and efficiency of America's highway transportation system. Our membership consists of more than 400 companies and associations representing 27 industrial and commercial categories, 63 state and local conferences, and 2,000 individual members. Our members, in turn, speak for more than 30 million commercial and private users of the nation's highway system. We are very pleased for the opportunity to express some of our concerns about the Federal-aid highway program

The Federation's members comprise the largest group of highway users and suppliers of highway services and products. By their highway usage, this group also represents the primary source of income for the Highway Trust Fund. In other words, our members are the principal payers of state and federal highway user fees.

Having paid the taxes, our members have a vital interest in seeing that the revenues are properly accounted for and returned to them in the form of better highways and safer transportation. Taxpayers need assurances that they are receiving full value for their taxes.

Mr. Chairman, as the primary architects of the highway program, you and your colleagues are well acquainted with the history of the Federal-aid highway program. Much of the current debate over the status of the Highway Trust Fund is centered around the context in which facts are stated rather than the facts themselves.

As an example, there is, in our opinion, a true surplus in the balance of the Highway Trust Fund. The administration states that there are outstanding commitments far in excess of the revenues in hand, so no surplus exists. While it is true that there are outstanding obligations, there is also the guaranteed future revenue stream from highway users to cover those obligations. To us, these tax collections continue for two years beyond the authorized program to account for the unobligated funds. There is no need to maintain an enormous cash reserve as a hedge against this "hanging" debt. The one pertinent question is, "How much of a balance does the Trust Fund need for fiscal stability?" We need no more than 2 to 3 billion dollars, not $10 billion, not $17 billion.

Mr. Chairman, you have asked for a review of the highway financing process. The following paragraphs provides a very basic outline of the Federal-aid highway program and the Highway Trust Fund mechanism. An excellent source of information on this topic is a Federal Highway Administration (FHWA) document entitled "Financing Federal-Aid Highways". We have drawn on this source in developing this testimony and recommend it highly to the members of the subcommittee and your staffs.

Mechanics of Highway Funding

Authorizations establish the funding limits for Federal-aid highway programs that FHWA can obligate the government to repay. As the subcommittee members are aware, it is the authorization levels that you will be establish in the highway program reauthorization act next year.

Most Federal programs require a two stage process to start a program, 1) Congressional establishment of the authorization, followed by, 2) appropriations, which provide the cash to fund the authorization.

The Federal-aid highway program is unusual in that it uses contract authority rather that budget authority to get the programs underway. In this process, the funds provided in the authorization can be obligated without an appropriation act. This is unfunded authority so appropriations are needed later to pay for the obligations incurred.

An obligation is a commitment of the Federal government to to repay a state for it's share of an eligible project's cost. The commitment is made when the FHWA approves a state's proposals to use part of its allocation or apportionment on a particular project. Once funds are obligated they are considered as "spent" though no funds have actually been transferred.

The Federal-aid highway program reimburses the states for expenditures they have incurred. The apportionment of authorizations provides a state a "line of credit" from which they draw on as projects develop. In general, states provide the "front-end" financing for projects and are reimbursed for the federal share as the work progresses. Depending on the type of project, the time between obligation and reimbursement can be from several days to several years. (See Table 1).

A typical payout schedule for a highway projects, assuming a straight line obligation rate, calls for a 17% reimbursement in the first year, roughly 52% of the payment in the second year, and 15% in the third and fourth years, respectively. The remaining 11% would be paid out in ever decreasing amounts in following years.

Apportionments are made by FHWA at the start of the fiscal year, through the issuance of certificates of apportionments, which document the amount of funds available to the State.

When allocations and apportionments are made, the amounts are added to the state's unobligated balances from previous years. Funding for various programs remain available for varying periods;

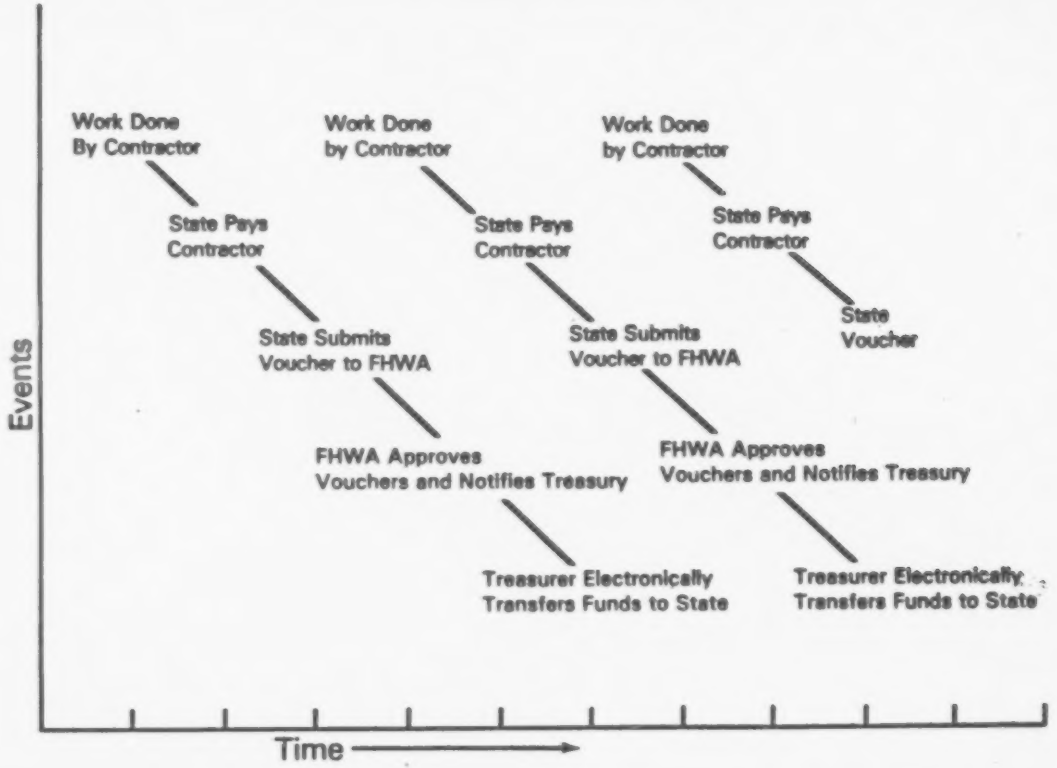
Interstate funds - 2 years (apportioned 1 year in advance of the fiscal year for which they were authorized and remain available through that authorized year.)

Interstate 4R - 3 years (apportioned 1 year in advance of the fiscal year for which they were authorized and remain available through the end of the following year.)

Non-intestate funds - 4 years (apportioned in the year for which they are authorized and remain available for the three following years.)

Table 1

Reimbursement



Please refer to Table 2 for a graphic representation of the funding availability. If funds are not obligated within their period of availability, the authority lapses. No cash is returned to the government because none was ever disbursed. The funding for certain programs; Interstate, Interstate 4R, and Interstate substitutions, doesn't lapse but can be distributed to other states which can make use of the funds.

The Federal-aid highway program is very complex to administer because of varied periods of availability for certain funds, the time gap between project starts and reimbursement to the states, and the fact there there are more than 500 accounts to keep track of. All of this leads to considerable uncertainty in the outlays of the highway program. The use of contract authority is very helpful to the states for highway planning and construction but it presents some difficulties for Federal budgeting and spending controls.

The obligation ceiling was instituted as a device to try and control the program, making it more responsive to budgetary concerns. It would be impossible to track and control the use of a particular year's funds, because of their multi-year availability. The obligation ceiling limits the amount of obligations which can occur in a particular year, regardless of the year in which the funds were apportioned or allocated.

The annual obligation ceiling is established by the Appropriations Committees with varying degrees of participation by the authorizing committees. This has led to large unobligated balances of funds (typically more than a full year's worth) being carried over from year to year. As of March 1990, the FHWA reports a total of $15.5 billion in unobligated balances (See Table 3).

Availability

Table 2

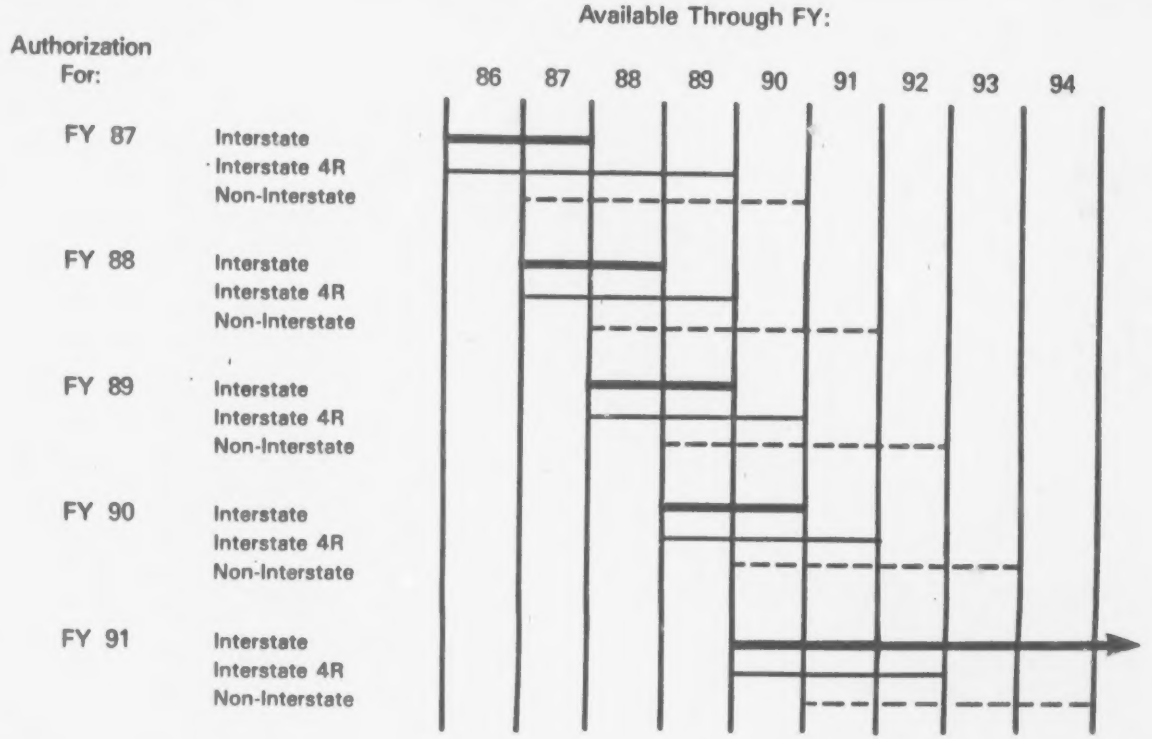


TABLE 3

U. S. DEPARTMENT OF TRANSPORTATION
FEDERAL HIGHWAY ADMINISTRATION

TABLE 10-01 UNOBLIGATED BALANCES OF FEDERAL-AID HIGHWAY FUNDS APPORTIONED OR ALLOCATED TO STATES

AS OF MARCH 31, 1990

LF0305A

	INTERSTATE	PRIMARY, SECONDARY URBAN AND BRIDGE	SAFETY CONSTRUCTION	FEDERAL LANDS AND OTHERS	TOTAL FEDERAL-AID ACCOUNT
ALABAMA	134,754,500.74	62,882,494.74	9,940,198.50	19,882,732.83	227,987,928.89
ALASKA	93,614,372.98	138,364,869.75	5,262,173.29	1,682,873.12	238,977,689.86
ARIZONA	19,801,300.16	147,680,157.10	13,136,500.42	22,997,917.96	203,513,875.14
ARKANSAS	68,822,968.94	92,949,779.81	3,437,882.96	44,294,554.57	179,015,114.82
CALIFORNIA	434,263,584.28	69,771,386.29	17,798,834.49	524,434,772.87	1,027,011,679.93
COLORADO	68,984,760.73	140,600,686.30	13,156,421.84	4,194,226.73	226,934,895.65
CONNECTICUT	29,246,447.48	100,940,101.41	5,301,834.84	154,176,792.76	288,665,413.91
DELAWARE	23,930,962.07	54,252,788.68	3,874,479.75	2,369,662.87	84,527,767.97
DIST. OF COL.	33,512,767.28	22,981,117.78	2,762,366.84	26,610,339.60	130,866,598.26
FLORIDA	112,289,834.88	264,693,028.57	9,373,083.80	186,737,581.01	323,855,594.18
GEORGIA	34,996,525.87	197,221,252.48	11,872,228.93	57,942,799.44	243,632,811.92
HAWAII	203,459,041.28	30,320,627.45	930,947.01	7,186,715.43	241,498,386.20
IDAHO	25,736,296.22	38,419,714.30	3,296,048.84	8,719,599.89	76,171,844.85
ILLINOIS	25,667,981.38	249,624,741.32	18,129,346.69	117,673,886.71	410,376,886.75
INDIANA	77,948,222.12	110,979,414.51	14,735,756.96	186,388,612.72	387,852,837.99
IOWA	29,652,184.25	74,854,473.81	15,861,228.57	77,956,169.75	198,324,281.36
KANSAS	38,818,849.77	140,710,796.44	8,398,819.85	13,897,646.71	250,926,112.77
KENTUCKY	48,634,336.21	110,375,491.95	6,364,961.66	17,036,020.81	174,432,810.23
LOUISIANA	188,784,615.96	284,718,948.40	11,811,900.33	25,582,188.84	492,897,573.15
MAINE	20,868,659.76	43,459,053.98	3,193,284.57	20,812,988.57	87,288,897.28
MARYLAND	182,162,324.62	133,396,241.01	6,653,640.80	127,456,474.99	451,662,683.42
MASSACHUSETTS	959,868,305.25	301,919,859.15	17,251,114.09	27,218,735.80	1,305,758,948.29
MICHIGAN	43,552,174.88	266,265,252.17	15,538,744.35	30,342,137.78	355,698,279.18
MINNESOTA	15,357,699.51	134,500,896.57	12,323,766.51	94,102,824.69	237,784,577.28
MISSISSIPPI	31,867,736.80	55,389,999.16	7,934,795.80	38,484,174.58	172,791,151.34
MISSOURI	79,013,510.15	133,864,085.74	10,508,365.84	92,634,188.21	317,325,949.45
MONTANA	31,308,868.80	65,230,255.62	5,551,995.24	8,249,306.98	153,540,418.64
NEBRASKA	872,773.92	65,894,044.28	12,857,136.30	647,926.43	80,971,878.93
NEVADA	31,881,481.80	36,639,381.96	1,325,795.86	3,169,622.79	76,997,284.75
NEW HAMPSHIRE	25,383,114.37	64,489,611.63	4,376,928.10	2,733,183.01	99,732,837.11
NEW JERSEY	137,829,510.31	209,804,902.34	11,886,514.94	125,420,953.38	484,121,880.97
NEW MEXICO	40,453,466.22	52,693,136.50	9,639,994.44	17,763,512.40	127,954,114.56
NEW YORK	38,909,866.25	359,367,688.80	19,914,181.00	349,273,847.84	767,464,880.14
NORTH CAROLINA	73,867,573.38	123,932,387.69	10,880,304.00	96,744,654.24	313,446,919.33
NORTH DAKOTA	29,476,320.61	33,557,508.91	3,430,996.26	6,788,568.00	77,261,463.78
OHIO	47,194,928.39	331,684,923.17	47,886,609.43	268,678,275.54	694,844,736.53
OKLAHOMA	79,860,421.08	101,660,910.15	10,972,264.57	28,035,849.52	219,529,445.32
OREGON	40,413,609.57	82,081,421.95	8,807,506.39	31,564,699.68	162,867,035.49
PENNSYLVANIA	88,735,618.96	325,256,576.79	27,955,582.79	38,883,751.49	518,931,660.23
RHODE ISLAND	54,119,411.04	28,229,607.84	4,541,284.52	37,495,896.44	124,395,199.26
SOUTH CAROLINA	50,132,063.34	149,842,824.58	17,020,139.84	105,321,711.24	322,515,959.00
SOUTH DAKOTA	28,240,531.94	52,332,176.00	3,819,126.36	5,077,649.13	89,469,331.43
TENNESSEE	64,350,990.80	136,223,245.63	8,860,164.84	64,875,312.75	273,999,918.02
TEXAS	331,150,619.12	84,117,774.82	18,021,672.13	391,240,278.19	824,530,342.17
UTAH	67,216,370.91	67,376,948.91	6,913,640.34	5,412,741.61	146,919,781.77
VERMONT	45,818,843.22	58,479,834.95	4,449,981.18	11,325,378.74	120,093,638.09
VIRGINIA	53,424,857.64	150,879,159.38	13,617,130.74	68,966,633.14	284,629,540.93
WASHINGTON	189,615,646.47	126,591,922.13	16,800,428.19	9,121,063.36	331,328,648.35
WEST VIRGINIA	60,587,927.41	144,358,326.53	8,193,362.28	14,025,389.22	227,884,798.44
WISCONSIN	47,296,819.86	75,286,132.80	13,779,623.68	32,998,834.78	169,362,689.44
WYOMING	25,289,487.48	43,998,041.77	2,459,273.80	12,138,650.32	83,855,262.37
AMERICAN SAMOA		875,468.80	983,856.76	19,808.80	1,874,332.76
GUAM		6,362,867.36	719,639.13	283,395.88	7,365,890.49
PUERTO RICO	18,426,275.85	74,934,115.88	2,264,439.50	1,540,881.90	95,167,717.53
U VIRGIN ISLANDS		1,630,177.66	284,055.49	57,778.94	1,972,016.09
TRUST TERRITORY OF THE PACIFIC ISLANDS		5,668,544	1,349,009.67	1,722,095.87	8,665,599.88
TOTAL	4,930,139,875.89	6,500,369,469.69	384,551,277.92	3,521,941,160.78	15,316,000,983.40

Another difficulty arises from the impact of the Gramm-Rudman-Hollings Deficit Reduction Act (commonly known as the Gramm-Rudman Act) on the multi-year financing of highway projects. The Gramm-Rudman Act is intended to force spending reductions in the following fiscal year. Yet most annual outlays for highways are the result of decisions made 4 and 5 years previously when projects were initially let. Because the payout for these projects is unevenly distributed over the years (as noted above, only 17% of the Federal cost is paid out in the first year of a project), to get a real outlay reduction in the current year, much greater cuts are needed in either authorization levels or the obligation ceiling. The rule of thumb calls for approximately $6 in program reductions to get a $1 reduction in the current outlays. Thus the highway program must suffer a tremendous cut to have any significant impact on early outlays.

Status of the Highway Trust Fund

The most recent Treasury report on the status of the Highway Trust Fund reports a total balance of $17.28 billion as of the end of February, 1990. This balance is made up of $10,635,535,500 in the highway account and $6,644,468,160 in the mass transit account. The Federation is concerned about the status of both accounts since the revenues for each are derived from highway users. The historical revenues attributable to both the highway and mass transit accounts are detailed in Table 4.

In recent years the administration has been calling their highway program proposals deficit neutral using a definition which holds total highway program outlays equal to the total highway tax revenues received for the period of the Surface Transportation and Uniform Relocation Assistance Act (STURAA), fiscal years 1987 through 1991, and not including interest on the Trust Fund balances as a source of income.

However, as the Subcommittee is aware, while the deficit is calculated on a simple income/expenditure basis for a single year, this approach doesn't work well when applied to activities like the highway program in which the government agrees in advance to pay for projects which will actually be paid for over the course of several years.

TAX RECEIPTS AND INTEREST EARNINGS OF THE HIGHWAY TRUST FUND 1957-1988

TABLE 4

FISCAL YEAR	HIGHWAY ACCOUNT RECEIPTS (net excise taxes)	HIGHWAY ACCOUNT INTEREST EARNED	HIGHWAY ACCOUNT BALANCE	MASS TRANSIT ACCOUNT RECEIPTS (net excise tax)	MASS TRANSIT INTEREST EARNED	MASS TRANSIT ACCOUNT BALANCE	HIGHWAY TRUST FUND RECEIPTS (net excise taxes)	HTF INTEREST EARNED	HTF ACCOUNT BALANCE
1957	$1,482,002,222	$3,094,002	$516,335,489				$1,482,002,222	$3,094,002	$516,335,489
1958	$2,043,801,312	$17,686,110	$1,048,533,925				$2,043,801,312	$17,686,110	$1,048,533,925
1959	$2,074,116,121	$13,583,651	$523,657,274				$2,074,116,121	$13,583,651	$523,657,274
1960	$2,539,026,576	$1,854,801	$119,220,816				$2,539,026,576	$1,854,801	$119,220,816
1961	$2,797,537,781	$2,017,718	$299,062,675				$2,797,537,781	$2,017,718	$299,062,675
1962	$2,948,690,128	$6,772,167	$470,660,561				$2,948,690,128	$6,772,167	$470,660,561
1963	$3,278,697,756	$14,268,227	$746,926,044				$3,278,697,756	$14,268,227	$746,926,044
1964	$3,519,156,643	$20,361,229	$641,430,885				$3,519,156,643	$20,361,229	$641,430,885
1965	$3,658,509,171	$11,034,928	$284,857,512				$3,658,509,171	$11,034,928	$284,857,512
1966	$3,916,802,919	$7,983,465	$242,695,087				$3,916,802,919	$7,983,465	$242,695,087
1967	$4,440,862,147	$14,225,035	$725,196,037				$4,440,862,147	$14,225,035	$725,196,037
1968	$4,378,885,924	$33,502,527	$981,720,829				$4,378,885,924	$33,502,527	$981,720,829
1969	$4,637,176,055	$52,654,293	$1,520,407,737				$4,637,176,055	$52,654,293	$1,520,407,737
1970	$5,353,626,933	$115,409,815	$2,608,249,790				$5,353,626,933	$115,409,815	$2,608,249,790
1971	$5,541,555,876	$183,877,300	$3,651,695,549				$5,541,555,876	$183,877,300	$3,651,695,549
1972	$5,322,422,606	$205,629,972	$4,489,530,745				$5,322,422,606	$205,629,972	$4,489,530,745
1973	$5,665,453,719	$246,740,126	$5,590,688,429				$5,665,453,719	$246,740,126	$5,590,688,429
1974	$6,260,308,809	$414,667,245	$7,689,794,897				$6,260,308,809	$414,667,245	$7,689,794,897
1975	$6,188,172,949	$585,654,147	$9,597,389,516				$6,188,172,949	$585,654,147	$9,597,389,516
1976	$5,413,149,985	$586,713,896	$9,076,649,908				$5,413,149,985	$586,713,896	$9,076,649,908
'76 TRAN	$1,676,060,454	$13,372,307	$9,008,522,504				$1,676,060,454	$13,372,307	$9,008,522,504
1977	$6,709,230,589	$593,068,332	$10,163,645,958				$6,709,230,589	$593,068,332	$10,163,645,958
1978	$6,904,434,415	$662,159,977	$11,672,503,160				$6,904,434,415	$662,159,977	$11,672,503,160
1979	$7,188,812,309	$857,285,830	$12,564,460,399				$7,188,812,309	$857,285,830	$12,564,460,399
1980	$6,619,825,908	$1,027,483,811	$10,999,459,518				$6,619,825,908	$1,027,483,811	$10,999,459,518
1981	$6,304,926,148	$1,128,819,105	$9,259,442,811				$6,304,926,148	$1,128,819,105	$9,259,442,811
1982	$6,743,679,035	$1,078,501,607	$9,046,417,431				$6,743,679,035	$1,078,501,607	$9,046,417,431
1983	$7,777,015,540	$1,075,821,372	$9,061,617,527	$519,644,000	$2,546,830	$519,059,367	$8,296,659,540	$1,078,368,202	$9,580,676,893
1984	$10,506,579,002	$1,026,534,769	$10,210,492,723	$1,236,045,000	$89,140,574	$1,611,049,204	$11,742,624,002	$1,115,675,344	$11,821,541,928
1985	$11,799,995,178	$1,106,451,413	$10,360,790,188	$1,213,740,000	$206,225,528	$2,524,016,233	$13,013,735,178	$1,312,676,941	$12,884,806,421
1986	$12,251,415,239	$1,054,143,137	$9,485,989,478	$1,112,654,000	$282,769,075	$3,286,876,596	$13,364,069,239	$1,336,912,213	$12,772,866,075
1987	$11,793,498,220	$933,909,494	$9,411,558,985	$1,238,858,000	$343,855,189	$4,202,056,030	$13,032,356,220	$1,277,764,683	$13,613,615,015
1988	$12,836,427,110	$808,983,510	$9,019,107,657	$1,277,430,000	$383,749,555	$5,167,560,405	$14,113,857,110	$1,192,733,064	$14,186,668,062

(MASS TRANSIT ACCOUNT ESTABLISHED APRIL 1, 1983)

HIGHWAYS		MASS TRANSIT		HIGHWAY & MASS TRANSIT ACCOUNTS	
Total Receipts	Total Interest Earned	Total Receipts	Total Interest Earned	Total Receipts	Total Interest Earned
$190,571,854,779	$13,904,265,320	$6,598,371,000	$1,308,286,752	$197,170,225,779	$15,212,552,071

DATA FROM TABLE FE-10, HIGHWAY STATISTICS ANNUALS, 1957-88

HUF - REVISED
APRIL 17, 1990

A full accounting of Highway Trust Fund finances must consider not only the tax revenues from highway users, but the interest income accruing to the Trust Fund from investment of the Trust Fund balance. Since the fund was established in 1956, interest income has been credited to, and forms part of the Trust Fund revenue (Internal Revenue Code, Section 9602(b), 70 Stat. 374, Section 209(e)(4).

The 1991 DOT budget projects total Highway Trust Fund revenues of $16.614 billion, including interest. Outlays for 1991 are estimated to be $15.127 billion. (See Table 5) From our view, this is hardly "neutral". If true deficit neutrality were desired, total obligations could be increased to $16.6 billion. In fact, because of the lag in processing bills for payment, obligations could be increased to as much as $17.6 billion or more.

Because of this disparity, we support the current efforts of the National Governors Association and others to increase the FY 1991 highway program obligation ceiling to $15 billion. This action would have an immediate, positive impact on the level of work that the states could undertake while causing only a minimal impact in actual outlays. It would also represent a positive step towards an eventual draw-down of the Highway Trust Fund balances.

Making full use of these funds is an extremely important issue to the Federation since we have proposed a four-year highway reauthorization program which calls for annual funding of $22.9 billion for Federal-aid highways and transit through 1995. A brief summary of our proposed highway program reauthorization is attached for your information.

We believe these higher funding levels can be supported without an immediate increase in user taxes, but only if the balances in the Highway Trust Fund are used for their intended purpose and the special tax treatment of gasohol is eliminated.

An inherent element in our reauthorization proposal is the conversion of the Highway Trust Fund to a permanent status. There is a clear role for the Federal government in maintaining the access to and safety of, major transportation routes across the nation and we feel it is vital that the Trust Fund mechanism be continued. It seems to be the most efficient and equitable way to permit highway program beneficiaries to pay for the benefits they receive.

TAX RECEIPTS AND INTEREST EARNINGS OF THE HIGHWAY TRUST FUNDS 1957-1989
(INCLUDES HIGHWAY AND MASS TRANSIT ACCOUNTS)

TABLE 5

FISCAL YEAR	HIGHWAY TRUST FUND RECEIPTS	INTEREST EARNED	TOTAL HTF INCOME	OUTLAYS	TRUST FUND BALANCE
1957	$1,482,002,222	$3,094,002	$1,485,096,224	$965,666,734	$516,335,489
1958	$2,043,801,312	$17,686,110	$2,061,487,422	$1,511,602,876	$1,048,533,925
1959	$2,074,116,121	$13,583,651	$2,087,699,772	$2,612,576,423	$523,657,274
1960	$2,539,026,576	$1,854,801	$2,540,881,377	$2,945,317,835	$119,220,816
1961	$2,797,537,781	$2,017,718	$2,799,555,499	$2,679,713,641	$299,062,675
1962	$2,948,690,128	$6,772,167	$2,955,462,295	$2,783,864,409	$470,660,561
1963	$3,278,697,756	$14,268,227	$3,292,965,983	$3,016,700,500	$746,926,044
1964	$3,519,156,663	$20,361,229	$3,539,517,872	$3,645,013,032	$641,430,885
1965	$3,658,509,171	$11,034,928	$3,669,544,099	$4,026,117,472	$284,857,512
1966	$3,916,802,919	$7,983,465	$3,924,786,384	$4,036,948,809	$242,695,087
1967	$4,440,862,147	$16,225,035	$4,455,087,182	$3,973,425,968	$725,196,037
1968	$4,378,885,924	$33,502,527	$4,412,388,451	$4,170,961,431	$981,720,829
1969	$4,637,176,055	$52,654,293	$4,689,830,348	$4,150,994,422	$1,520,407,737
1970	$5,353,626,933	$115,409,815	$5,469,036,748	$4,381,613,816	$2,608,249,790
1971	$5,541,555,876	$183,877,300	$5,725,433,175	$4,685,348,327	$3,651,695,549
1972	$5,322,422,606	$205,629,972	$5,528,052,579	$4,690,217,383	$4,489,530,745
1973	$5,665,453,719	$246,740,126	$5,912,193,845	$4,811,036,161	$5,590,688,429
1974	$6,260,308,809	$414,667,245	$6,674,976,054	$4,575,869,585	$7,689,794,897
1975	$6,188,172,949	$585,654,147	$6,773,827,097	$4,843,089,343	$9,597,389,516
1976	$5,413,149,985	$586,713,896	$5,999,863,881	$6,520,603,490	$9,076,649,908
'76 TRANS	$1,676,060,454	$13,372,307	$1,689,432,761	$1,757,560,166	$9,008,522,504
1977	$6,709,230,589	$593,068,332	$7,302,298,921	$6,147,175,468	$10,163,645,958
1978	$6,904,434,415	$662,159,977	$7,566,594,392	$6,057,737,191	$11,672,503,160
1979	$7,188,812,309	$857,285,830	$8,046,098,139	$7,154,140,901	$12,564,460,399
1980	$6,619,825,908	$1,027,483,811	$7,647,309,719	$9,212,310,600	$10,999,459,518
1981	$6,304,926,148	$1,128,819,105	$7,433,745,253	$9,173,761,960	$9,259,442,811
1982	$6,743,679,035	$1,078,501,607	$7,822,180,642	$8,035,206,022	$9,046,417,431
1983	$8,296,659,540	$1,078,368,202	$9,375,027,742	$8,840,768,280	$9,580,676,893
1984	$11,742,624,002	$1,115,675,344	$12,858,299,346	$10,617,434,311	$11,821,541,927
1985	$13,013,735,178	$1,312,676,941	$14,326,412,119	$13,263,147,625	$12,884,806,421
1986	$13,364,069,239	$1,336,912,212	$14,700,981,451	$14,812,921,799	$12,772,866,074
1987	$13,032,356,219	$1,277,764,683	$14,310,120,902	$13,469,371,963	$13,613,615,014
1988	$14,113,857,110	$1,192,733,064	$15,306,590,174	$13,828,874,000	$14,186,668,000
1989	$15,627,877,000	$1,244,783,000	$16,872,660,000	$14,450,987,000	$16,608,341,000
	Total Net Receipts	Total Interest	Total Receipts	Total Outlays	RECEIPTS-OUTLAYS
	$212,798,102,777	$16,457,335,070	$229,255,437,847	$211,848,078,943	$17,407,358,905
Administration Projections from '91 Budget					
1990	$14,747,000,000	$1,515,500,000	$16,262,500,000	$14,945,530,000	$17,925,311,000
1991	$15,113,000,000	$1,501,200,000	$16,614,200,000	$15,127,314,000	$19,412,197,000

DATA FROM TABLE FE-10, HIGHWAY STATISTICS ANNUALS, 1957-88
1989-91 DATA FROM FY 1991 BUDGET

HUF - REVISED
02-May-90

We commend the Administration for recognizing in the national transportation policy, the need to invest in America's transportation and for the promise to "fully use the funds that people have paid in transportation user charges for investments in transportation." Our private sector members completely support the concept of greater public, private cooperation for a more effective future highway program. We will do our part to make this work.

While talking about fully utilizing the available funds, there is also the question as to whether the funds we have available fully represent the taxes paid by highway users? Between fiscal years 1986 and 1987 there was a strange drop in highway account revenues (see Table 4), despite significant travel increases and record numbers of truck sales and registrations in FY 1987.

There have also been suggestions that significant amounts of highway revenue have been "skimmed off" by organized crime through the use of false records and paper trails. We fully support the efforts that the FHWA is undertaking to work with the Internal Revenue Service and the various state tax authorities to improve the efficiency of the tax collection process. We urge the Congress to permit this effort to continue.

Trust Funds Off-budget

There has been considerable interest in trying to remove the Highway Trust Funds from the unified federal budget to protect the highway program from deficit reduction efforts as well as reducing the incentive for accruing large balances in the funds to offset the overall Federal deficit.

Also of concern are the recurring suggestions that new fuel taxes be imposed with the proceeds used to reduce the federal deficit. The need to find new funds to offset as much as $75 billion of the early term deficit will influence proposals for such "quick and easy" taxes. We are concerned that the proposed "budget summit" will be just one of the arenas in which it is discussed.

This subcommittee is particularly attuned to the crippling impact that a fuel tax for deficit reduction purposes would have on the highway program. Such a tax would impose significant costs on all highway users, directly through personal travel, and indirectly through the additional costs that vehicle manufacturers and the trucking industry would have to pass through to consumers.

Fuel taxes for deficit reduction purposes also create geographic inequities by imposing higher costs on the citizens of rural areas and western states who have to drive, and drive further for the basic necessities of life, than those of us in urban areas. Tourism would also be hard-hit by a fuel tax increase for deficit reduction, injuring one of the major industries for every state in the nation. We appreciate the efforts of the Chairman and other members of the committee who have sponsored H.Res.41, opposing the use of fuel taxes for deficit reduction purposes.

The Federation strongly supports these efforts but we are concerned that the nation's deficit difficulties will make the enactment of an off-budget proposal unlikely. Removing the trust funds from the budget would have a direct impact on the federal deficit. This would present a very difficult decision for members of Congress in this era where proposals that raise costs or lose revenue must be offset by comparable program reductions or new revenues.

An alternative course of action might be to establish a capital budget for the nation that would provide a better means for determining the value and status of our infrastructure and allow rational decisions to be made regarding the necessary investments to be made to maintain and enhance our public works. The concept would create separate accounts for capital investments and operating expenses, as done in the private sector, state budgeting and even by many local governments. The operating budget could continue to be governed by Gramm-Rudman-Hollings or similar provisions, while fiscal stability would be assured in a different way, through a device such as the Byrd amendment in the case of the Highway Trust Fund.

This redefinition of the federal budgeting process would avoid presenting Congress with the difficult choices now faced, where any relaxation of the Trust Fund accounts appears to penalize other worthy programs.

Mr. Chairman, I have covered variety of issues here and only briefly touched upon any of them. I would be happy to respond to any questions that the subcommittee may have. I appreciate this opportunity to appear before you today and we look forward to working closely with you in the coming months to develop a progressive and forward-looking highway program reauthorization. We are all aware that the Federal Highway Administration will apportion its final full year of funding less than five months from now. The countdown has begun.

The Highway Users Federation's 9-point Highway Reauthorization Program

The Federation proposes a four-year reauthorization with annual funding of $22.9 billion for federal-aid highways and transit through 1995. We believe these funding levels can be supported without an immediate increase in user taxes, if balances in the Highway Trust Fund are used for their intended purpose and the special tax treatment of gasohol is eliminated.

1. Protect the Interstate System

Over the past 35 years, the United States has invested more than $133 billion to create the Interstate Highway System. Interstate highways carry more than 22 percent of all travel, though they consist of about one percent of the nation's road system.

The physical and operational condition of the Interstate System must be kept to a very high level through an ongoing program of restoration, rehabilitation, resurfacing and reconstruction. The Federation recommends that completion of the system be fully funded and an additional annual federal-aid commitment of $4 billion for these activities.

2. Create a National Arterial System

Another three to four percent of the nation's highway system carries another 30 percent of vehicle travel. A program is needed to upgrade these priority routes with safer designs, controlled access and additional lanes where needed and bypasses and arterial roadways in growth areas.

The Federation urges the maximum use of new engineering techniques to make travel on this National Arterial System safer and more energy efficient, help to reduce traffic congestion and help to improve urban air quality. The Federation recommends an annual federal-aid budget of $6 billion for this program.

3. Restore Metropolitan Mobility

Throughout the U.S. there are areas where billions of dollars have been invested in homes, offices and factories but not enough in needed transportation infrastructure, including roads, bridges, parking facilities, traffic control facilities and public transit.

The Federation proposes a five-fold increase in the federal commitment to helping people "get around town" through a Metropolitan Mobility Program for areas with populations over 50,000. This would be a different type of program, reducing red-tape by allowing local authorities more flexibility to spend the funds on any surface transportation capital investment, provided that investment fits into a 10-year development plan developed locally and approved by the state. We feel this would reverse the past trend toward under-investment in transportation infrastructure and improve urban mobility.

The Federation recommends annual federal funding of $4 billion for these efforts from the Highway Trust Fund, coupled with $3 billion per year from general funds for high cost transit programs such as subway systems.

4. Connect Rural America

Access to major highways is critical to millions of Americans living on farms and in small cities and towns. Although daily traffic mileage on these non-arterial roads is small, the total sum of rural road mileage is large. These roads are vital to the distribution of produce from the nation's agricultural sector to consumers throughout the country.

Local governments cannot provide for our rural mobility needs alone; major assistance is needed to keep rural roads and bridges safe and serviceable. The Federation recommends the establishment of a Rural/Small City Program to support highway or public transportation improvements in rural areas and cities with populations below 50,000. The projects would be selected by local officials, following state-approved long-range improvement plans. federal-aid funding for this program should be $2 billion annually.

5. Keep Bridges Safe

Bridges are vital to all our road systems and the members of this Subcommittee are very familiar with the vast number of America's bridges which are outmoded, obsolete and increasingly unsafe.

The Federation proposes a state-managed bridge program which would use federal-aid funds to ensure that all highway bridges receive proper inspection, maintenance and rehabilitation or replacement, regardless of what system they might be on. We recommend annual federal-aid funding for this effort of $2.5 billion.

6. Improve Traffic Safety

The United States has the lowest highway fatality rate for travel of any industrialized nation in the world: 2.2 deaths per 100 million miles of travel. The number of traffic fatalities, exceeding 45,500 in 1989, is still too high.

While each of the elements of our proposed highway program would bring additional safety benefits, additional federal funding is justified to eliminate roadside hazards, improve signs, signals and markings, and to support non-engineering activities such as safety belt and child safety system use, alcohol and drugged driving countermeasures, driver education, traffic law enforcement and the regulation of commercial vehicles.

Speaking of safety belt use, the Federation and the auto industry, working with Traffic Safety Now, are proud of the role we played in bringing about passage of state safety belt use laws throughout the country. These laws are now in effect in 33 states and the District of Columbia, and the increased safety belt use they have produced has been credited with saving more than 10,000 lives. More can and should be done to increase enforcement of safety belt laws, and to bring about their passage in those states which do not have them. In this regard, we support the Administration`s goal of increasing belt use from the current level of just under 50 percent to 70 percent by 1992.

7. Research and Development

Research can provide major dividends in the form of better highway operations and safety. We realize it is not possible in all cases to address traffic congestion through the addition of more lanes. We will have to augment traffic capacity through the use of new technologies which allow the road system to be used more efficiently and make it safer for all drivers.

The Federation recommends the establishment of a 10-year public/private development program dedicated to putting smart cars on smart roads, which will provide drivers with electronic aids to warn of hazards, give locations and provide destination headings in all weather and traffic conditions. The focus of this program should include the research and development of new technologies but also place as much emphasis on the implementation of current technology wherever possible. We recommend an annual federal budget of $100 million per year for the smart car-smart road program, to be matched by the commitments of private industry in a ten year program. Other FHWA research activities should also be expanded.

8. Develop Scenic and Public Lands Roads

Millions of acres of scenic and public lands should be opened to the American public and foreign visitors through the environmentally-sensitive development of recreational highways.

Tourism is a major source of income for many states and we recommend that the existing programs for the development of park, parkway, public land and scenic/recreational routes be closely coordinated with our suggested rural and arterial highway programs. The nation needs a coordinated program of scenic roadways to enhance tourism. Greater access to the nation's mineral, livestock and timber resources is also needed through the development of ecologically benign roads to remote areas. The Federation recommends $300 million in annual federal funding for the federal lands access efforts. The scenic roads program should be eligible for all regular federal-aid programs, rather than having a new program of specific funding.

9. Assure Better Planning

The $22.9 billion in total federal expenditures recommended under the Federation program demands more and better coordination of transportation and private development decisions to assure that both support community goals. This is a process which has failed too often in the past. It must be improved without eroding the rights of local citizens to decide their own development futures.

State and local planning should be strengthened by this proposal and federal-aid transportation projects would have to conform to an established long-range plan meeting specific, locally set development goals and priorities. This effort would be funded by an increased percentage of highway and transit program funds.

Funding Recommendations

While recommending higher expenditures for highways in order to meet existing and future highway needs, the Federation is not suggesting a change in the historical proportions of federal, state and local funding, that is, roughly, 25 percent from the federal government, 50 percent from state governments, and 25 percent from local governments.

We believe our recommended programs and funding levels can be supported through 1995 without any additional federal highway user taxes. It would require that current funds available in the Highway Trust Fund be fully utilized, elimination of the excise tax exemption for gasohol (almost $500 million in 1989), making full use of the interest earnings of the Trust Fund (more than $1 billion annually), and drawing the balance of the Highway Trust Fund down over the reauthorization period to a reasonable level of $2 to $3 billion. We believe any proposals to increase federal highway user taxes should be deferred until the present excessive Trust Fund balances are drawn down, and the funds productively used for their intended purposes. State and local governments can use this four-year "window" to reexamine and adjust their user fees if necessary to fund their portion of an expanded program.

STATEMENT OF KATE L. MOORE
ASSISTANT SECRETARY FOR BUDGET AND PROGRAMS
U.S. DEPARTMENT OF TRANSPORTATION
BEFORE THE INVESTIGATIONS AND OVERSIGHT SUBCOMMITTEE
OF THE HOUSE PUBLIC WORKS COMMITTEE
May 8, 1990

Introduction

Mr. Chairman, Congressman McEwen, Members of the Subcommittee, I thank you for inviting me here this morning to discuss the transportation trust funds. I am pleased to have with me today Mr. Gene McCormick, the Deputy Administrator of the Federal Highway Administration, and Mr. Mike Moffet, Assistant Administrator of the Federal Aviation Administration for Policy, Planning, and International Aviation.

Dealing with issues related to the transportation trust funds has occupied a significant portion of my first year at the Department of Transportation -- along with assisting in the development of Secretary Skinner's National Transportation Policy, where we dwelt considerably on the Nation's infrastructure needs. Speaking of the Transportation Policy, let me again state our appreciation for the Public Works Committee's providing a platform for presentation of the Policy, and our appreciation for the leadership this Committee has exercised in addressing infrastructure needs -- which we all see as a key component of investing in America's future.

With respect to the highway and aviation trust funds, I have learned that the issues are complex, that the public debate on the issues includes a great deal of misinformation, and that setting the record straight is a difficult task. For that reason, I appreciate your willingness to provide a forum for informed debate of the issues.

I propose to provide some background on the transportation trust funds before I discuss the specific issue of their budget status, which I understand is of particular interest to the Subcommittee. History has some important lessons for us, and, in the interest of some expediency today, it is well to remember the wisdom of Oliver Wendell Holmes' observation that "A page of history is worth a volume of logic."

History of the Highway Trust Fund

The Highway Trust Fund was created in 1956 in support of the vision of Dwight D. Eisenhower and the Congress to build a national Interstate Highway System. The trust fund is funded by highway user fees -- primarily, a cents-per-gallon charge on motor fuels, but other excise and truck use taxes as well.

Funds authorized from the trust fund are distributed to the States on a formula basis.

Perhaps it would be useful to digress here to explain the budgetary notion of "contract authority," because it plays a critical role in the transportation trust funds. As you know well, Congress authorizes funds in authorization legislation and subsequently appropriates funds in appropriations bills. Authorized funds generally cannot be used until they are appropriated. Contract authority is a special kind of budgetary resource that is available for obligation without Appropriations Committee action. The authorizations for the Federal-aid highway program provide mainly contract authority. Each year, by law, on October 1, the Federal Highway Administration (FHWA) apportions to the States most of the contract authority under a formula distribution that is established by law. There are also some amounts distributed through discretionary allocations.

That is all the action that is needed to obligate the funds, and, if Congress took no further action, the States could proceed to obligate all the contract authority apportioned to them. However, that is not the last Congressional word. An annual obligation limitation is also imposed as part of the appropriations process on most elements of the Federal-aid highway program. This limitation is generally less than the full amount of contract authority that would otherwise be available for obligation. Obligation authority is distributed to the States at the same time as the contract authority is apportioned, or when discretionary allocations are made. States are then constrained, by the amount of obligation authority they are provided, in how much of their contract authority they can obligate in total. The States do have discretion to decide how to use their obligation authority across the range of specific Federal-aid programs. Depending on a State's priorities, it could use its obligation authority to obligate all its Interstate construction funds, for example, if completion of gaps in that System were its top priority. It would then have to make up for that by obligating proportionately less of its Federal-aid funds in another category.

I should note that traditionally some elements of the Federal-aid highway program are exempted from the obligation limitation. The major elements that are exempted are the Minimum Allocation program (which ensures that each State receives at least a percentage of the total apportionments equal to 85 percent of its percentage contribution in tax receipts) and the Emergency Relief program. Special authorizations for demonstration projects have also usually been exempted from the limitation.

Not only do States decide how to use their obligation authority among the various specific Federal-aid programs, they also decide which projects to advance with the funds

they use. The Federal-aid highway program is a federally assisted, State-administered program.

Once FHWA approves a project that the State proposes, the Federal share of the cost of the project is considered "obligated." The State then proceeds -- doing the detailed engineering, advertising for bids, and selecting a contractor, who then begins work. The State incurs costs, pays the bills, and then seeks reimbursement of the Federal share from FHWA. Federal outlays (i.e., actual expenditures) do not occur until the State is reimbursed.

Because Federal payments are reimbursements to the States and because it is typically several years from project approval to project completion, outlays are spread out for several years after obligations. Based on a long history of actual expenditures, we estimate that, on average, one dollar obligated this year will mean an outlay of 17 cents this year, 52 cents next year, 15 cents in the third year, 5 cents in the fourth year, and 3 cents in the fifth year. That is 92 cents of the dollar; the remaining 8 cents is paid out over the next several years following the fifth year.

Since the highway program is "slow spending," commitments can be made that depend on future-year revenue, that is, FHWA can approve projects and incur obligations that total more than the current cash balance. The law permits that approach under a provision known as the Byrd Amendment, which was sponsored by Senator Harry Byrd and dates back to creation of the trust fund. The Byrd Amendment, as amended in the Surface Transportation Assistance Act of 1982, says that FHWA can apportion contract authority at the beginning of any one year as long as that new contract authority plus existing unpaid commitments do not exceed the current cash balance and the projected income for that coming year plus the next two. In other words, we are legally permitted to be in a position where, if we stopped the program at the end of one year and made no new commitments, we are authorized and would need to continue to collect taxes and earn interest for up to two years to pay the bills for commitments we had already made.

Recent History

As most of you, no doubt, well remember, in 1982, then President Reagan proposed and Congress enacted an increase in the motor fuel tax, from 4 cents a gallon to 9 cents. That was the first significant increase since 1960, and I might add that the cash balance in the Highway Trust Fund at the end of 1982 was $9.0 billion, or, in 1990 dollars, $11.9 billion -- more than the cash balance now. At that time, Congress also made a major increase in the truck use tax. In 1984, the truck use tax was reduced and a "diesel differential" was created. Diesel, which is a common fuel for trucks, is taxed at 15 cents a gallon. Non-truck users of diesel are entitled to a rebate on their income tax to offset the diesel differential. In addition to the motor

fuel tax and the truck use tax, there are excise taxes on the sale of trucks and truck tires. There are two partial exemptions from the motor fuel tax: gasohol and ethanol/methanol not made from petroleum or natural gas are taxed at 3 cents per gallon, and ethanol/methanol made from natural gas is taxed at 4.5 cents per gallon.

In FY 1989, the gas tax, including the tax on gasohol, accounted for 58 percent of annual revenue; the diesel tax, for 28 percent, the truck sales tax, for 8 percent; the truck use tax, for 4 percent; and the truck tire tax, for 2 percent.

The Mass Transit Account

As part of its proposal to raise the fuel taxes in 1982, the Administration also proposed to dedicate one cent of the increase to transit and create a new Mass Transit Account in the Highway Trust Fund to accept those receipts. (The rest of the tax receipts went to the newly created Highway Account.) Congress accepted that proposal.

The Mass Transit Account operates much the same as the Highway Account. One difference is that, instead of the Byrd Amendment, commitments from the Mass Transit Account are governed by the Rostenkowski Amendment, which limits the reliance on future-year revenue to one year beyond the current year, rather than the two years under the Byrd Amendment. Like the Federal-aid Highway program, the portion of the Urban Mass Transportation Administration's (UMTA) program that is financed from the Mass Transit Account is contract authority.

Balances in the Highway Trust Fund

There are two important figures in any discussion of the trust fund balances: the cash balance and the uncommitted balance. The cash balance represents the amount of money that the Treasury Department credits to the trust fund at any particular moment. There are two important things to say about the cash balance: one, there is not really a pot of cash sitting in the Treasury -- in fact, the cash balance is invested in government securities; and, two, the cash balance is not a "surplus," since there are outstanding commitments against it, that is, bills for commitments already made that will have to be paid. The situation might be compared to a personal checking account: you may have written checks that have not cleared your bank yet, so the bank's statement of your balance looks better than you know it to be.

At the end of this fiscal year, we project a cash balance in the Highway Trust Fund of $17.9 billion -- $11.0 billion in the Highway Account and $6.9 billion in the Mass Transit Account. Commitments against that balance will total $37.4 billion -- $33.0 billion against the Highway Account and $4.4 billion against the Mass Transit Account. So,

commitments will exceed the balance in the Highway Account by $22.0 billion, and the cash balance will exceed the commitments against the Mass Transit Account by $2.5 billion, that is, the Mass Transit Account will have a surplus of $2.5 billion.

There are two kinds of commitments: one, commitments made for specific, approved projects, where Federal funds have been obligated for the projects but, because States have not yet sought reimbursement, have not been expended. These we call, logically enough, unexpended obligations. The second kind of commitment is the more general commitment represented in the contract authority that Congress has authorized, and most of which has been apportioned to the States, but which has not been obligated, either because of obligation limitations or because, independent of obligation limitations, recipients have not been able to advance projects with those funds yet. These "unobligated balances" still represent a commitment to the States.

In the Highway Account, unobligated balances exist because of obligation limitations and because of unobligated contract authority for programs not subject to the limitation. The States have never failed to use all the obligation authority available in any one year, due in part to the redistribution of authority in August of each year from States that cannot use all their authority to States that can use more. Of the $33.0 billion in commitments against the cash balance of the Highway Account, $22.0 billion is unexpended obligations and $11.0 billion is unobligated balances.

To put these balances into perspective, it may be useful to make a historical comparison. The cash balance in the Highway Account will be $11.0 billion at the end of this fiscal year. In 1979, the cash balance reached its highest level -- $12.6 billion, which is the equivalent of over $21 billion in 1990 dollars. In recent years, the balance has been increasing in nominal dollars by an average of about 2.4 percent a year since 1982, when the gas tax was more than doubled.

Looking at the $33 billion in commitments, we see that they will be about three times the cash balance at the end of this year. Within that $33 billion, the unexpended obligations of $22 billion -- unpaid bills for projects already approved -- will be twice the cash balance. By comparison, at the end of 1982, just before the fuel tax was increased, commitments were only a little more than twice (212 percent of) the cash balance, and unexpended obligations were only 46 percent higher than the cash balance. You can see that the cash balance is more leveraged today than it was in 1982. And, back in 1979, commitments were only 50 percent higher than the cash balance, and unexpended obligations were only 8 percent more than the cash balance.

The Mass Transit Account has a surplus basically because the authorized levels have been less than the level of annual tax receipts, not to mention total annual income including interest. At the same time, Congress has appropriated an average of about $2 billion a year from general revenue for mass transit.

History of the Airport and Airway Trust Fund

The Airport and Airway Trust Fund was created by the Airport and Airway Development Act of 1970. It is financed by aviation user fees, including an 8 percent passenger ticket tax, an international departure tax of $6, a 5 percent freight waybill tax, and fuel taxes on non-commercial aviation of 12 cents a gallon on aviation gasoline and 14 cents on jet fuel. The passenger ticket tax accounts for 87 percent of trust fund tax receipts; the international departure fee, for 6 percent; the freight waybill fee, for 5 percent; and the fuel taxes, for 3 percent.

The trust fund finances 100 percent of the capital costs of the Federal Aviation Administration (FAA) and 100 percent of its research, engineering, and development program. FAA has two capital programs: Facilities and Equipment (F&E) and the Airport Improvement Program (AIP). The F&E program provides funding for implementation of the National Airspace System (NAS) Plan, which is a multi-year, multi-billion dollar, total revamping of the air traffic control system. The AIP is a grant program through which FAA provides funds for airport capital improvement projects directly to large airports and through apportionments to the States for smaller airports.

The F&E program and FAA's research program do not have contract authority; they are funded through annual appropriations. The AIP program, like the similar Federal-aid Highway program, is provided contract authority, and Congress applies annual obligation limitations to the program. Unlike the FHWA's approach, FAA apportions contract authority to the large airports and to the States only up to the obligation limitation. This approach is consistent with the terms of FAA's authorization legislation. For highways, there is a functional advantage to the "gap" between apportioned contract authority and obligation authority since there is contract authority for a number of different Federal-aid highway programs and the States can decide how to use their obligation authority across the various programs. For aviation, however, the only FAA program that provides funds for the States and large airports to manage is the Airport Improvement Program. Since this is the only Federal-aid program in aviation, the question of flexibility among several programs is not relevant, so there would be no advantage to apportioning contract authority in excess of obligation authority.

The trust fund is also available to fund a portion of FAA's Operations expenses, and therein lies the center of the controversy surrounding the aviation trust fund. In 1970, when the trust fund was created, Congress provided that, after the trust fund monies had been used for FAA's capital programs, the "balance" could be used for Operations and research. In the view of the authorizing committees, the Administration's next budget request (for FY 1972) did not request full funding for the capital and research programs and drew too much funding for Operations from the trust fund. In reaction, Congress amended the 1970 Act in 1971 to exclude Operations as an eligible use of trust fund monies. In 1976, Congress again amended the Act to provide for a limited, capped use of trust fund monies for Operations: up to $250 million was permitted for FY 1977, rising to $325 million for FY 1980.

In the Airport and Airway Improvement Act of 1982, Congress took a new approach to the issue of trust fund support of Operations. The authorizing committees crafted what has come to be known as the "penalty" provision. It provided for a level of trust fund support of Operations expressed as a multiplier of the authorized amounts for the Airport Improvement Program. If the amounts made available for the AIP and the F&E programs through the appropriations process were below the authorized amounts, then trust fund support of Operations would be automatically reduced. There would be no less money spent on Operations -- it just would not come from the trust fund. In fact, appropriations for the capital programs were less than the authorized amounts for the fiscal years 1982 through 1987, the years authorized in the 1982 legislation, and the penalty provision reduced trust fund support of Operations. In 1984, no trust fund monies were spent on Operations.

If appropriations had equaled the authorized amounts for the capital programs for the years 1982 through 1987, some $7.4 billion in Operations would have come from the trust fund. But capital appropriations fell short of authorizations by almost $2.1 billion over the six years (about 18 percent of total authorizations), and, as a result of the penalty provision, trust fund support of Operations totaled $4.2 billion, a shortfall of 43 percent from what would have been provided without the penalty provision. Primarily as a result of the penalty provision, the cash balance in the trust fund rose from $4.7 billion at the beginning of FY 1982 to $9.9 billion at the end of FY 1987; the uncommitted balance rose from $3.0 billion at the beginning of FY 1982 to $5.6 billion at the end of FY 1987.

In the Airport and Airway Safety and Capacity Expansion Act of 1987, Congress made the penalty even more severe, extending it to funding for the research program and increasing the size of the penalty. Under its terms, each one-dollar shortfall between authorizations and appropriations for the capital and research programs results in a reduction of $2.50

in trust fund support of Operations. That has been the major factor in the continued growth in the cash and uncommitted balances in the trust fund: the cash balance will grow to $14.6 billion at the end of this fiscal year, and the uncommitted balance, to $7.6 billion.

Budget Status: The Issues

With that background on the transportation trust funds, I will turn to the issue of the budget status of the trust funds, which I understand is of interest to the Subcommittee.

I think we should ask a series of questions to help us reach consensus (if that is possible) on this issue:

- First, are we committed to reducing the total Federal deficit, that is, to reducing the amount of money the Federal government must borrow from private lenders to pay its bills?
- Second, if so, can we ignore trust fund spending in setting the annual budget for the Federal government?
- Third, if not, should trust fund spending levels be established as part of the overall budget process?
- And, finally, if trust fund spending should be established as part of the overall budget process, have we been fair to those who pay user fees when we set those spending levels? Can we be fair in the future?

Are we committed to reducing the total Federal deficit?
By enacting the Gramm-Rudman-Hollings law, Congress and the Executive Branch established reduction of the Federal deficit as a national priority. As that legislation developed, many Members of the Public Works Committee proclaimed the merits of the proposal, observing that the American people were "fed up" with paying inordinate interest on the Federal debt -- that action on the deficit was an "imperative obligation." In October 1987, we saw renewed proof of the importance of deficit reduction when the apparent inability of the Federal government to reach a budget agreement for FY 1988 that would bring down the deficit helped bring on the worst stock market decline since 1929. Chastened by that event, Congress and the White House quickly reached a 2-year budget agreement to assure the country that the Federal government could deal with the deficit.

The deficit, as we all know, is a simple calculation: total Federal outlays minus total Federal income. The difference is what the Treasury must borrow from private lenders to pay its bills. In terms of macroeconomic effects, that is the "deficit" that counts: it affects the interest rates all borrowers pay, and, therefore, the cost to produce and distribute goods and services in this country and abroad. It affects our competitiveness abroad. I would hope that, whatever we may think about particulars in Federal spending, we can agree that it is critical not to lose sight of the total Federal deficit.

Can we ignore trust fund spending in setting the annual budget for the Federal government?
If we can agree that we must not lose sight of the total Federal deficit, I think we must then agree that we cannot ignore trust fund spending in setting the annual Federal budget. If we ignore it, and simply deal with non-trust fund programs, we will not be considering the whole picture, and we could not ensure that we will meet our deficit reduction targets. If we accelerate obligations to draw it down, the resulting outlays, in addition to the outlays that will result from obligations already made and from proposed spending levels for next year, could result in a significant increase in the Federal deficit above the Gramm-Rudman-Hollings target for next year, which already appears more difficult to achieve than we thought in January.

Should trust fund spending levels be established as part of the overall budget process?
If we can agree that we cannot ignore trust fund spending in establishing the budget, should the trust fund programs be "on the table" with other Federal programs? Or should their spending levels be set first, without regard to competing needs and, then, spending be set for other programs so as to achieve overall deficit targets? I suspect that it is on this question that we may begin to find some disagreement.

On the one hand, trust funds are supported by user fees dedicated to specific purposes, so, the argument goes, the trust funds should be used without regard to spending in other areas. I know that the Members of the Public Works Committee are dedicated -- as is Secretary Skinner -- to seeing that the Nation's transportation needs are met. There is an obvious frustration in not seeing more of the trust fund balances used to meet those needs. On the other hand, those who pay user fees benefit from other Federal spending programs for which spending might be reduced to offset increased trust fund spending. Some are obvious: as I have discussed, transit has been receiving almost twice as much from general Federal revenues as it has from the transit penny of the fuel tax, and it would be a mistake to ignore that. Aviation users have been benefiting from FAA Operations -- the services of air traffic controllers, those who maintain critical air traffic control equipment, and aviation safety inspectors, for example -- that have been largely funded from general revenues. As an example of the kind of ironic consequence that might result from setting trust fund spending levels without regard to other government spending, excessive spending on FAA's capital programs might have to be offset by reductions in general fund support of FAA Operations: we might go on buying new computers for air traffic controllers to use, and be unable to hire the controllers to use them.

Those who pay user fees -- that is, virtually all Americans, since almost all of us ride in automobiles or fly in

airplanes at various times -- have an interest in a great deal of the rest of the Federal budget, as well, although that interest does not justify the diversion of user fees to support general Federal spending. I am sure, for example, that we all want an adequate national defense; we all care about education, health programs, clean-up of hazardous nuclear wastes, environmental protection, anti-drug programs, and public safety programs, to name but a few programs that affect a broad cross-section of American citizens.

The needs of our transportation systems are real, and Secretary Skinner, the heads of our operating administrations, and I have been and will continue to be forceful advocates for meeting those needs both within the Administration and before Congress. But I do not believe that we need special budget treatment -- which may come at the expense of other DOT programs or other non-transportation programs of critical importance to America -- to ensure adequate funding for trust fund programs.

And that leads me to the final questions:
Have we been fair to those who pay user fees when we set trust fund spending levels? Can we be fair in the future?
I believe the answer to these questions is "yes." Let me address each of the programs.

With respect to spending from the Highway Account, as I have mentioned, the amount of outstanding commitments is three times the cash balance, which means that, if we were to end the program at the end of this year and apportion no new contract authority, we would need an additional $22 billion to pay off those commitments. To put that into perspective, we project that the Highway Account will receive $14.7 billion in tax receipts next year, so commitments currently exceed the cash balance by the equivalent of a year and a half of tax receipts.

The important fact is, though, that Highway Account spending has exceeded tax receipts since the creation of the Highway Trust Fund. Since FY 1985, the Highway Account has added to the Federal deficit in every year but one. During the last highway authorization period (1983-1986), spending exceeded user fee receipts by $3.8 billion. During 1987-1991, highway outlays are projected to exceed user fee receipts by approximately $2.3 billion.

Those who pay user fees are seeing more spent on highways than they are paying in user fees. The issue, of course, is interest: the current cash balance is equivalent to the interest that has been credited to the trust fund less the excess of outlays over tax receipts. I do not argue that interest should not accrue or that it should not be dedicated to highway purposes, but it is not a "user fee" -- it is an intragovernmental transfer. That is, it is money credited to the trust fund from general revenues, but, with the deficit this country faces, the Treasury does not have that interest

to spend. If spending is increased to use more of the interest that is accruing, the Treasury will have to borrow to pay the resulting bills.

With respect to the Mass Transit Account, outlays have been less than tax receipts, but total Federal spending on transit has far exceeded tax and interest collected in the Mass Transit Account. For example, this year the Mass Transit Account will earn about $1.3 billion in taxes and about $550 million in interest. Mass Transit Account outlays will only total about $976 million, but total outlays by the Urban Mass Transit Administration will total $3.5 billion -- 2.7 times the total tax revenue paid into the Mass Transit Account this year. Given those figures -- all for mass transit -- it is hard to argue that those who pay the transit penny are not getting what they are paying for, although it surely says that we must carefully consider, as we look at reauthorization for FY 1992, how we can make better use of the Mass Transit Account and reduce reliance on general revenues.

With respect to the aviation trust fund, let me quote from the report of the Congressional Budget Office report to the House Transportation Appropriations Subcommittee: "Aviation users have received more in benefits than they have paid in taxes; i.e., total spending on aviation from both the general fund and the trust fund has been greater than the excise tax revenues over the history of the trust fund. The accumulated trust fund surplus has developed because the general fund has been used to support aviation spending."

In fact, since 1982, a total of $46 billion has been made available to the FAA. Of that amount, $26 billion was funded by user fees, and the remaining $20 billion was funded by general revenues. The trust fund has financed about 57 percent of FAA's budget.

Aviation capital spending has grown significantly. Between 1982 and 1990, FAA's annual capital and research funding has increased from $780 million to $3.3 billion. Between 1982 and 1990, FAA's Operations budget has increased from $2.3 billion to $3.8 billion. The trust fund has funded about 24 percent of the cost to operate and control the aviation system. The remainder has been funded by general revenues. The aviation user has been the beneficiary of the expenditure from general revenues.

Looking to the future, the Administration has proposed a five-year reauthorization of FAA's programs from 1991 to 1995 with significant increases in program funding. A five-year time frame provides the funding commitment necessary to plan for an effective and cohesive airport and airspace system.

Capital funding for aviation infrastructure and research would increase by 73 percent over the next five years compared to what was made available over the last five years.

Infrastructure increases include funds to modernize the air traffic control system and for airport development. The five-year funding levels we have proposed include: $13.5 billion for F&E, $7.7 billion for airport grants, and $970 million for aviation research.

Our proposal continues a major Federal role in support of airport development and also provides a new source of local revenues to provide critically needed airport capacity through a passenger facility charge (PFC). This proposal would eliminate a Federal barrier to airports' increasing their revenue base for such purposes as critical capacity expansion. Given the forecast that the number of airports experiencing more than 20,000 hours of annual flight delays will increase from 21 now to 33 by 1997, we must put every tool possible in airport operators' hands to expand capacity. Roughly $1 billion could be raised annually by a $3 PFC -- equating to $10 billion in bonding authority now to meet the demands that we are experiencing today and can see in the future.

Major funding increases and recovery of the users' share of the cost of the system -- 85 percent -- from the trust fund require an increase in the existing user fee levels. The passenger ticket fee would be raised from 8 percent to 10 percent; the freight waybill fee would increase from 5 percent to 6 percent; and the non-commercial aviation fuel fees would increase from 12 cents to 15 cents per gallon for gasoline and 14 cents to 18 cents for jet fuel.

The trust fund surplus is projected to be $7.6 billion by the end of this year. With the funding levels proposed over the next five years, it would be reduced to less than $3 billion by 1995. This represents an average reduction of nearly $1 billion a year. The surplus would be less than $2 billion if the $1 billion contingent authorization is required for modernization of the air traffic control system. If the fees are not increased, the trust fund would be in a $1 billion deficit by 1994 with the Administration's proposed funding levels. The longer one waits to increase the user fees, the higher the future level must be.

Conclusion

In conclusion, permit me to review the questions I posed. Are we committed to reducing the total Federal deficit? I hope so; I think our country's future is critically dependent on an affirmative answer to that question. Can we achieve deficit reduction and ignore trust fund spending? I do not see how: if we tried, we would not be considering the whole picture, and we could not ensure that we would meet our deficit reduction targets.

If we cannot ignore trust fund spending levels, should they be set as part of the overall budget process? I think they have to be. To do otherwise might mean critical underfunding

of other government -- even other DOT -- programs to achieve necessary deficit reductions. As I mentioned before, I doubt that aviation users would want to see increased trust fund spending for airports and FAA equipment result in underfunding of the salaries of the FAA personnel who operate the equipment and control flights into and out of airports.

If we set trust fund spending levels as part of the budget process, can we treat fairly those who pay the fees that go into the transportation trust funds? As I hope I have shown you, we can and have done so. In all cases, more has been spent on the programs that the trust funds support than has been paid by users into the trust funds.

Finally, where do we go from here? Your full Committee will be a key player in answering that question. We have submitted a bill for consideration by the Aviation Subcommittee for reauthorization of the Federal aviation programs for the next five years, which we believe is a bold, aggressive proposal to meet the critical aviation needs of this country. We are now working on a proposal for reauthorization of the Federal highway, highway safety, and mass transit programs, and we look forward to working with the Surface Transportation Subcommittee in that important area.

Again, thank you for inviting us to participate in your hearing today. I hope I have been able to provide some helpful information, and my colleagues and I will be pleased to answer your questions.

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ARTBA
American Road & Transportation Builders Association

Testimony

of

Dr. T. Peter Ruane

President and CEO

American Road and Transportation Builders Association

before the

Subcomittee on Investigations and Oversight

Committee on Public Works and Transportation

U. S. House of Representatives

May 8, 1990

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Good morning Mr. Chairman, Representative McEwen and members of the Subcommittee. I am Pete Ruane, president and chief executive officer of the American Road and Transportation Builders Association, which is based here in Washington, D. C. I am pleased to present testimony on behalf of the association's nearly 4,000 members nationwide on the status of the Highway Trust Fund and other transportation-related trust funds.

ARTBA has been providing Washington representation for the transportation construction industry for nearly 90 years. Our membership hails from all sectors of the industry, public and private. We represent not only construction firms but also state and local transportation officials, equipment manufacturers, engineering and design firms, materials and traffic safety device suppliers and educators in the fields of transportation planning and civil engineering.

Mr. Chairman, the announcement of this hearing called for testimony on the status of the Highway and Airport/Airways Trust Funds. One word - deplorable - sums up the status of these two very important funding mechanisms for meeting our federal highway and aviation construction needs. The balance in the two trust funds, including the Mass Transit Account is over twenty-three billion dollars!

These are trust fund monies - partially committed or wholely uncommitted - which can be used to meet rapidly accelerating transportation construction improvement needs. That is what they were designed for when developed by

Congress and enacted. They were meant to be spent to improve transportation by providing an efficient system of highways and airports to move people and commerce.

Over the thirty-five years following establishment of the Highway Trust Fund, the U. S. highway system has contributed tremendously to economic growth and social change. It's performance has become critical to the American way of life. Our airports and system of air travel have become equally important.

Many reports prepared by the Federal Highway Administration and other public organizations indicate that our national highway system is in serious disrepair. Expenditures to maintain the federal-aid system, even though funds were available in the Highway Trust Fund, have not kept pace with deterioration. Highways and bridges throughout this country cannot provide the level of service that they were designed to provide and as such create major safety and operating problems.

The 1989 needs analysis of the Federal Highway Administration identifies an annual federal highway program of $40 billion as necessary to address the growing backlog of unmet contruction, rehabilitation and improvement needs on the federal-aid system. These needs have grown and developed over the last twenty years as highway user revenue have sat idle and accumulated in the Highway Trust Fund.

Between $25 billion and $30 billion is needed each year for capital improvements on roads on the federal-aid system. Another $5 billion to $10 billion is necessary to correct the structural and problems of obsolescence with the system's bridges. With only about $14 billion of federal highway user revenue currently being spent each year, it is obvious that we as a nation are underinvesting in our national highway network.

The Federal-aid Highway Program was established on a pay-as-you-go system in 1956 based on the concept of the users paying the cost of building the Interstate Highway System and improving other highways and bridges on the federal-aid system. The Highway Trust Fund was established to segregate the monies so as to have adequate resources available and not have to rely on the competition for General Fund monies. The Highway Trust Fund and several others, including Social Security, were originally established as separate entities and were not included in the federal budget.

This worked well until 1967 when budget pressures from the Vietnam War created a deficit situation which could only be solved at the time by tax increases or spending cuts in "Great Society" programs. President Johnson wanted neither of these. Instead he got the Congress to adopt the concept of the "Unified" Budget.

By including the surplus in Social Security and other trust funds, a fifty percent reduction in the 1967 deficit was immediately realized.

A surplus is a surplus, whether or not it occurs in a trust fund. These surpluses are invested in government securities, thereby reducing the need for federal borrowing in private capital markets. Regardless of how a surplus in a trust fund is invested, it is already spoken for because there are future spending committments against these surpluses or balances.

This could not be more true than in the Highway and Airport/Airways Trust Funds. The basic premise of these two trust funds is to have adequate resorces to finance and build a modern and efficient transportation network. In the early days of each fund, resources built up faster than spending could occur. This was acceptable because it would be spent later to pay bills for work completed.

Under the legislative language of the Highway Trust Fund and the subsequently enacted Byrd amendment, deficit financing is not possible. Revenue raised from the various federal highway user taxes must be sufficient to pay current year bills and liquidate all prior years unobligated apportionments.

Our federal-aid highway system and the airport facilities eligible for federal assistance are investments in the future of this nation. They are paid for with fees collected in an equitable manner. Unfortunately, the users have not received all of the benefits since the early 1970's when highway impoundments first amounted to significant dollars. It is time to recitfy this situation.

Corporations in this country have both operating and capital budgets. Since the highways constructed with federal user fees are long term assets, maybe it is time to apply the same concept to federal expenditures and create a capital budget to differentiate between operating programs and capital spending such as for highways and airports. Our highways are an asset even though they are in fact owned by the states. Without the large federal contribution, many would not have been constructed or improved.

We are in our current dilemma over highway spending and trust fund balances because of the deficit. If the federal government were to keep separate current and capital accounts, and adjusted depreciation for inflation, the budget picture would considerably improve.

Mr. Chairman, regardless of which course of action - capital budget, trust fund off-budget or trust fund spend down - is taken, now is the time to begin addressing critical transportation problems. ARTBA supports the effort of Representative McEwen's bill (H. R. 286) to remove the Highway and Airport/ Airways Trust Funds from the unified budget and the Gramm-Rudman-Hollings calculations.

By taking the transportation funding mechanisms off-budget, these vital programs can operate in an orderly fashion given only revenue constraints. Further, transportation assistance would also be exempt from possible sequestration under the Gramm-Rudman-Hollings balanced budget law.

Removal from the budget process will allow a drawdown of the trust fund balances to begin immediately. ARTBA's highway policy recommends this action as the first step in meeting transportation improvement needs identified by Federal Highways and the state highway agencies. The only constraint on the size and methodolgy of the drawdown is the effect of the Byrd Amendment which requires sufficient money be available to liquidate all outstanding unfunded apportionments.

This is achieved by authorizing the revenue collections for the Highway Trust Fund two years beyond the expiration of program authorizations. Only a minimal amount of the Highway Trust Fund balance is required to comply with the Byrd Amendment. ARTBA, therefore, recommends that the Highway Trust Fund be drawn down to the level required for cash management purposes. The same principle applies to the Airport/Airways Trust Fund which currently has an uncommitted balance of over $7 billion.

Mr. Chairman, the transportation community is solidly behind removing the transportation trust funds from the budget process. Last month, under the leadership of the American Transportation Advisory Council, twenty-seven business groups and companies signed a letter to all Members of Congress urging that these trust funds be removed from the budget. I am pleased that the two associations joining with ARTBA at the witness table today supported that letter. Further, I would like to thank Mr. McEwen for putting the letter and comments in the Congressional Record.

With the likelihood that the Social Security Trust Fund will come up in the House for an off-budget vote, ARTBA and the other signers of the letter are prepared to devote the necessary time and resources to assure that careful consideration is given to any amendment that would remove the trust funds from the budget process and deficit calculations.

Mr. Chairman, a final word about the action taken by the House Budget Committee and agreed to last week by the entire House. While we commend the action to increase the transportation function to accommodate a larger highway program ($15.1 billion total spending for fiscal year 1991), the only way to achieve the purpose for the establishment of the Highway Trust Fund is to remove it from the budget. It will, then, not be subject to any competing pressures relating to the allocation of federal funds.

ARTBA thanks you for calling this hearing and the leadership which Public Works and Transportation Committee members have taken in fighting for increased highway and airport program funds. I stand ready to answer any questions from subcommittee members.

AIRPORT OPERATORS COUNCIL INTERNATIONAL

Statement of

Robert R. Wigington
Senior Vice President
Government and Economic Affairs

AIRPORT OPERATORS COUNCIL INTERNATIONAL

on the

AIRPORT AND AIRWAY TRUST FUND

before the
Subcommittee on Investigations and Oversight
Committee on Public Works and Transportation
U.S. House of Representatives

May 8, 1990

* * * * * * * * *

- AOCI represents the local, regional and state governmental bodies that own and operate the principal airports served by scheduled airlines in the United States and in 40 countries around the world.

- AOCI member airports enplane more than 90 percent of total domestic and virtually all international scheduled airline passengers and cargo traffic in the United States.

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Statement of the
Airport Operators Council International
Before the Subcommittee on Investigations and Oversight
on the Airport and Airway Trust Fund
May 8, 1990

Good morning Mr. Chairman and Members of the Subcommittee:

I am Rob Wigington, Senior Vice President for Government and Economic Affairs for the Airport Operators Council International (AOCI). AOCI represents the local, regional and state governmental bodies that own and operate the principal airports served by scheduled air carriers in the United States and throughout the world.

We appreciate the opportunity to discuss with you the Airport and Airway Trust Fund and the serious problems that prevent adequate funding for aviation capital improvement programs.

AOCI has spoken out many times about the serious problems facing our aviation system and the critical need for higher trust fund spending to increase the capacity and safety of the nation's airport and airway infrastructure.

AIRPORT CAPACITY PROBLEMS AND NEEDS

The state of our aviation infrastructure today is not good and the prospects for the future are troubling. For many years, we have failed to build adequate airport facilities to keep pace with

growing air traffic and passenger demand. It has become painfully obvious to the aviation industry, air travelers and shippers that there is not enough airport capacity throughout the system and at key locations to efficiently handle aircraft and passengers.

Airport capacity is now emerging as the weakest link in the national air transportation system and is the major constraint on the growth of our nation's aviation system today.

Some compelling facts we must consider:

- In 1988, 482 million passengers boarded commercial airlines at our nation's airports. By the year 2000, FAA forecasts 822 million enplanements -- a 70 percent increase.

- Presently 21 major airports are "seriously congested", according to the Federal Aviation Administration (FAA). Barring major improvements in airport capacity, FAA estimates that 67 airports will be seriously congested by the end of the decade, causing significant delays for 88 percent of all air passengers.

The nation and air travelers are paying a high price for an inadequate, overcongested air transportation system that robs us of the full economic benefits and productivity that should be

realized. Delays cost passengers and airlines approximately $5-6 billion each year due to lost time, inconvenience and increased operating costs.

HISTORY OF THE AVIATION TRUST FUND

Mr. Chairman, as you and the subcommittee members know, the Airport and Airway Trust Fund was created in 1970 under the Airport and Airway Development Act of 1970. One year earlier, Congress approved the concept of a unified budget, making all trust funds part of the annual federal budget.

The premise on which the aviation trust fund was created was that air travelers and aviation users would agree to pay federal excise taxes into a dedicated fund, and in turn those monies would be used to finance capital improvements, primarily the air traffic control system and airport development. Since 1972, air passengers and other aviation users have paid $37.8 billion into the trust fund, while trust fund outlays have been $30.9 billion. Thus, trust fund receipts have exceeded outlays by approximately $6.9 billion. The federal government has not kept faith with the traveling public.

In establishing the Airport and Airway Trust Fund, Congress clearly intended that the vast majority of receipts collected would be used for capital development of the aviation system:

> "The committee believes that the users of the system are being asked to pay increased charges primarily to provide additional revenues for capital development in the system ... Therefore,

> the users have a right to expect that a major share of the trust fund revenues be allocated to provide the necessary airways and airport facilities which will increase the margin of safety and will provide additional convenience and efficiency." (Senate Report 91-565.)

Underfunding of Aviation Trust Fund Programs

For too many years, and despite the best efforts of the Public Works and Transportation Committee, the aviation trust fund has been held hostage to the federal deficit, and its growing surplus has been misused to make the deficit appear artificially smaller. Instead of fully spending the trust fund user fee revenues for their intended purpose, the federal government has underfunded airport and airway development programs each year (Attachment 1).

The federal Airport Improvement Program (AIP) plays an important role in the overall financing of airport development projects. While air travel and traffic demand has grown dramatically since airline deregulation in 1978, the federal investment in airports has not been nearly enough to keep pace with the demand for new and expanded facilities.

Because of the current treatment of the trust fund within the unified federal budget and the pressures for deficit reduction, the administration each year requests and Congress appropriates less funding for airports than is authorized and needed. Since 1982, federal funding for airports has fallen nearly $1.5 billion short of the authorized levels. In just the last three years under the

current authorization (FY 1988-90), AIP has been underfunded by $1 billion. Inadequate federal assistance has caused important airport capacity, safety, security and noise mitigation projects to be delayed or go unfunded. Presently, the FAA has a backlog of more than $7 billion in unfunded airport grant project applications -- projects that are eligible and deserving of federal assistance, but which cannot be funded given the limited federal AIP dollars made available.

The FAA Facilities & Equipment program has been similarly underfunded to the tune of $2.6 billion during the 1982-90 period. This perpetual underfunding of aviation programs has constrained the modernization of the air traffic control system (National Airspace System Plan) and the development of the nation's airport infrastructure, thereby contributing to the serious congestion and delay problems we face today.

Clearly, aviation users are not getting what they paid for. Instead of fully spending trust fund resources to improve and expand our airports and aviation system, the trust fund surplus is being 'borrowed' for other government programs and to artificially reduce the deficit. The trust fund and aviation users get IOU's from the federal government while congestion and delays mount, airport development projects are deferred or cancelled, and development needs and costs escalate.

It is an unfortunate fact that the federal budget process is a much greater determinant of how much can be spent on airports and aviation than the level of needs or available trust fund monies. That was certainly not the intention of Congress when the trust fund was established. We cannot afford to let the federal budget deficit dictate trust fund spending, because while it may allow Congress and the administration to meet arbitrary budget and spending targets, it bears no relationship to the dedicated user taxes flowing into the trust fund, the growing surplus, or aviation infrastructure needs.

Capital Programs Versus Operations Funding

The uncommitted surplus in the aviation trust fund has grown each year and is expected to reach $7.6 billion at the end of this fiscal year. As we see it, there can be no denying that the surplus is a direct result of underspending. Some will argue that the surplus was created in part because the trust fund has covered only a portion of FAA's operations and maintenance (O&M) costs, and the balance has come from the general fund. The fact is that Congress originally established the trust fund to fund the capital improvement programs (F&E, AIP and R,E&D), and permitted some funding for operations but only after the capital program needs were met first.

Congress has recognized the government and military use of the system and the benefits of the air transportation system to the

general public and the nation, and that those costs should be borne by the general taxpayer:

> "The committee, then, rejects the administration proposal that at some point in the future the civil users of the system should be required to pay all system costs except those which accrue directly from military or Government aircraft operations. The committee believes that the general appropriations will continue to be required to pay for that portion of the system cost which is not directly allocated to the civil users and ... that should appropriately be charged to the system and value to be assigned to the general public benefit." (Senate Report 91-565.)

The trust fund was never intended to pay for all or a major share of the FAA's operating costs. Yet past administrations and the current administration continue to press to change the trust fund's purpose and shift FAA operations funding from the general fund to the trust fund. In its FY 1991-95 trust fund reauthorization package, the Bush Administration proposes to repeal the "penalty clause" and change the purpose of the trust fund so that it would support a much greater share of FAA operations and fund 85 percent of FAA's total budget. We strongly object to diverting trust fund resources to O&M when aviation capital needs are not being met.

Since 1982, the trust fund has provided 24 percent of total FAA operations and maintenance funding, with the remainder being paid out of the general fund. Those arguing that the trust fund should have paid more of operations costs are simply ignoring the law and congressional intent governing the trust fund and its expenditures. The trust fund share of operations could have been higher had the administration requested and the appropriations committees funded

the full authorization levels for the F&E and AIP programs. It was for that very reason that Congress linked trust fund support for O&M to the level of appropriations for the capital programs and enacted the penalty clause. The penalty clause was designed to create a disincentive for shifting trust fund monies to operations at the expense of the capital programs and to preserve the purpose of the trust fund. Of course, since the capital programs have been underfunded, operations funding from the trust fund was also reduced, as the law required.

Out of deep frustration with the trust fund and inadequate aviation funding, the Public Works & Transportation Committee included in the 1987 reauthorization a trigger tax reduction mechanism in another effort to encourage greater trust fund spending. The trigger tax required that if appropriations for the capital programs were less than 85 percent of the authorized levels in FY 1988 and 1989, then the aviation taxes would be reduced by 50 percent. As you know, that funding threshold was not achieved and the trigger tax reduction would have taken effect, but for Congress repealing the provision last year. At the same time, an attempt was made to divert $1 billion in aviation user tax revenues saved by the repeal from the trust fund to the general fund.

We greatly appreciate your leadership, Mr. Chairman, in opposing the diversion and successfully defeating it on the House floor. That was a very important victory and further indicated the

overwhelmingly support in Congress for preserving the integrity of the trust fund.

Debating whether the surplus belongs to the general taxpayers or the aviation system users, we believe, misses the point. Our nation's airports simply need an immediate infusion of capital dollars so that the enormous capacity, security and safety projects can be financed. Political arguments, regardless of who's right or wrong, won't build runways or new airports.

FUTURE TRUST FUND RESOURCES AND FUNDING

Based on CBO and OMB revenue projections for the trust fund for the next five years, we believe the current federal aviation taxes and the available surplus are adequate to support the increased spending levels that are needed.

The administration has proposed increasing the passenger ticket tax from 8 percent to 10 percent and similar increases in the other trust fund user taxes. The proposed tax increase would generate an additional $600 million per year to the trust fund. The administration claims that under its reauthorization proposal, the trust fund surplus would be spent down from $7.6 billion to approximately $3 billion by FY 1995. The question becomes: what is the need for an additional $3 billion in tax revenues over the next five years ($600 million per year) if there will be a surplus of $3

billion remaining. We do not see the need for increased trust fund taxes since those additional revenues will only add to the surplus. We should spend the current tax revenues and the surplus before making the users pay more into the trust fund.

Under the administration's FY 1991-95 funding proposal for trust fund capital programs, and assuming the current funding formula for FAA operations, we estimate that trust fund spending would total $33.18 billion, roughly equal to projected trust fund receipts during the same period. Even with the higher funding levels that AOCI and other aviation groups are recommending, the current trust fund taxes, along with spending down the trust fund surplus, will be sufficient.

AOCI and the national aviation associations have recommended that the trust fund renewal this year should authorize annual levels of $3 billion for the Facilities & Equipment Program and $260 million for R,E&D, levels somewhat higher than the administration proposes. AOCI also believes that the administration's proposed $1.5 billion AIP funding level is inadequate, and that the airport grant program should be increased substantially over the current $1.8 billion authorized level to better address airport funding needs.

Assuming the current formula for operations funding from the trust fund is continued (i.e., a maximum of 50 percent of capital program funding), and the above appropriations levels are actually provided

for F&E, AIP and R&D, then the trust fund would spend approximately $7.56 billion per year, or $37.8 billion between FY 1991-95. Trust fund receipts (including interest) are projected to total $33.6 billion between FY 1991-1995. Expenditures would thus exceed receipts by approximately $4.2 billion, which would thereby draw down a significant portion of the current surplus.

Historical Trust Fund Revenues and Spending

($ in billions)

	FY 1972-1990
Trust fund receipts	$37.8
Trust fund outlays	30.9
Difference (surplus)	$ 6.9

Projected Trust Fund Revenues and Spending

	FY 1991-1995
Trust fund receipts	$33.6
Trust fund expenditures*	37.8
Difference (surplus reduction)	$ 4.2

* Assumes new authorization and annual appropriations from trust fund at following levels:

F&E	$3.0 billion
AIP	$1.8 billion
R&D	0.26 billion
Capital programs	
Total	$5.06 billion
O&M (current formula)	$ 2.5 billion
TOTAL	$7.56 billion

BUDGET REFORM AND TRUST FUND 'FIXES'

In order to achieve greater spending for aviation, the trust fund must be freed of its current budgetary constraints. The same arguments that apply to ending the misuse of the Social Security Trust Fund surplus to mask the federal deficit also apply to the aviation trust fund surplus. We must return integrity and 'trust' to the Airport and Airway Trust Fund and not permit its intended purposes to be subjugated to political and budget manipulation.

In order to free the trust fund and ensure that its resources are made fully available for the aviation system needs, we believe that Congress should reform the budgetary treatment of the trust fund. We commend your efforts, Mr. Chairman, to remove the trust fund from the unified budget. We also commend Congressman McEwen for introducing H.R. 286, the Infrastructure Protection Act of 1989, to ensure that the aviation, highways and inland waterways trust funds are not included in the budget totals. We encourage you to continue your efforts as opportunities arise. Given the political difficulty of achieving that and the impact it would have on the federal deficit, consideration might be given to taking the trust fund off-budget in phases so as to minimize the budget impact in any one year, and perhaps gain more congressional support.

However, we must caution that simply taking the trust fund "off-budget" will not solve our funding problems unless Gramm-Rudman-

Hollings and the budget allocation process are also reformed. There are other trust fund reform initiatives which we urge you to consider, such as provisions in S. 1600, introduced by Senator Ford. That bill attempts to remove the current bias in the budget and appropriations process and deficit calculations against spending the aviation trust fund. It would remove the present incentive that Congress and the administration have to build up trust fund surpluses that can be counted against the deficit and to shift budget allocations and funding from aviation programs to non-aviation programs.

Under S.1600, trust fund revenues and interest received after September 30, 1990 would be credited to a new aviation trust fund account, would be excluded from baseline calculations used to determine the budget deficit, and would not be subject to sequestration. These funds would be made fully available to meet obligations for authorized capital programs and operations through an 'automatic' appropriation. On October 1, 1993, the balance of the 'old' trust fund would be transferred to the new account and come under the same improved budgetary treatment.

These reform initiatives offer a fresh start for the trust fund and would relieve many of the current budget constraints on trust fund spending. We strongly urge the Public Works and Transportation Committee to consider such measures that would provide meaningful budget reform for the trust fund and link its revenues with

expenditures and needs.

AIRPORT CAPITAL DEVELOPMENT FUNDING NEEDS

While achieving budget reform and taking the trust fund off-budget and out from under sequestration would greatly help to increase trust fund spending, the trust fund and AIP program will still not be able to provide sufficient funding for airports. It is important to recognize that while the trust fund provides 100 percent of the funding for Facilities & Equipment and Research, Engineering & Development, it provides a relatively small portion of total airport development funding. Historically, the Airport Improvement Program has provided only about one-third of total airport development funding, and airports must rely on local revenues and bonds to raise the greatest share of financing.

ADOCI recently conducted an extensive survey of U.S. airports to determine capital development funding needs nationwide over the next five years. The costs are startling and do not bode well for the future of our aviation system, unless new and more effective means of financing airport improvements can be enacted.

Our survey reveals that total capital development financing needs for airports nationwide are approximately $50 billion between 1991-1995. These airport capital needs represent an average of $10 billion per year in project costs which must be met by both federal

and local funding sources. The survey results are attached to our statement (Attachment 2).

These capital needs reflect the fact that airports are now playing catch-up to build and improve facilities, increase capacity and reduce delays, in order to handle passenger and traffic demand. It is clear that current capacity shortages are driving the bulk of airport capital development plans. Approximately 75% to 85% of the total projects are needed to increase capacity and expand the airport system.

While these needs are dramatic, our estimate is also conservative. The total does not include some $10 billion in projects that airports have planned in 1990, many of which inevitably will be delayed because of lack of funding, nor does it include the construction of new commercial airports beyond those planned for Denver and Austin.

Approximately 60 percent, or $6 billion annually, of the total airport project costs will be eligible for Airport Improvement Program (AIP) grants -- far more than the current $1.8 billion AIP authorization level or the $1.4 billion actual funding level can provide. If the federal AIP program were to continue to fund its traditional one-third share of total airport development costs, more than $3 billion in annual federal funding would be needed -- more than <u>double</u> the current $1.4 billion airport grants level.

Even if a new $3 billion-plus per year AIP program were authorized and actually appropriated, that would still leave $7 billion in projects that must be financed by a combination of bonds and new airport revenue sources.

Clearly, airports will not be able to incur substantially greater debt burdens and raise the capital needed for projects without a new revenue source to repay that debt.

LOCAL FUNDING OPTIONS TO MEET AIRPORT CAPITAL NEEDS

Airports Need A local Passenger Facility Charge Option

The best and most effective way to solve the capacity problem and meet airport expansion funding needs is for Congress to return to airports the option of assessing a charge on air travelers using their facilities, commonly known as a Passenger Facility Charge (PFC). When deregulation was enacted, the prohibition on passenger charges was not eliminated and airports were left with limited financial resources to deal with unconstrained demand. It is imperative that airports be able to raise revenues from the one user source which is most directly related to demand and the need for airport facilities and services -- the passenger.

Many of the current constraints to increasing capacity could be overcome if airports were given the flexibility to impose passenger charges and become more self-sufficient. PFCs would provide a

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reliable source of funding for airports to pursue needed development projects. PFCs could be applied directly to capacity, safety and other projects, resulting in significant savings of costs associated with issuing bonds. However, for those airports with enormous up-front capital needs, a PFC revenue stream can be dedicated for the repayment of bonds, thereby substantially increasing airport bonding capabilities. We have attached to our statement a comparison of the amount of funds airports receive through AIP entitlement grants, and the funds that could be raised through a modest $3 local passenger charge and leveraged to increase bonding power (Attachment 3).

PFCs offer tremendous advantages for large, medium and small airports. Smaller airports in particular could benefit by the enhanced bonding power a PFC would provide. In addition, to the extent PFCs help meet larger airport development costs, greater AIP funds could become available for smaller airports. PFC funds could also be very beneficial to finance the expansion of general aviation and reliever airports, where such projects would help relieve congestion at a primary airport. Perhaps most importantly from the federal government's perspective, local PFCs would have no impact on the federal budget.

PFCs would also empower airports to build new facilities, such as gates, that are critically needed to promote airline competition, thus providing their communities with new service opportunities and

competitive fares.

We are pleased to see that the administration's reauthorization proposal endorses giving airports the option to impose PFCs in addition to increased AIP funds, in recognition that it would provide substantially greater local financing capabilities. Our capital needs survey results demonstrate to us that airports will need even greater AIP funding in combination with PFCs.

Airports nationwide are asking for a much greater federal commitment to address our capacity shortage by increasing AIP funding and releasing airports of the federal restriction on locally imposed passenger facility charges. As local government representatives, airport operators are willing to take on the responsibility for raising user fees on the local level to provide new airport capacity -- but Congress must unlock our handcuffs first.

Federal Airport Revolving Loan Fund

We also believe that in reauthorizing the aviation trust fund, the uncommitted surplus should be spent down and used for aviation improvements. AOCI has developed one creative way to put the surplus to productive use, and that is to create a Revolving Loan Fund (RLF) that would provide loans to airports for development projects. Using a portion of the surplus as seed capital, an RLF could leverage additional funds in the capital markets and provide

$1 billion in loans annually, in addition to AIP funds. Loans would be made available at market rates, and as the loans are repaid, they would be reloaned. Eventually, no additional funding from the trust fund would be needed and the RLF would become self-sustaining and grow.

A major advantage with the RLF concept is that it can be created with a minimal or zero federal budget impact. Under one scenario, $2.5 billion could be provided from the trust fund over ten years (or a shorter period), which could in turn be leveraged to sustain a $1 billion-plus annual loan program. The RLF concept offers a budget-sensitive way to put the trust fund surplus to productive use for aviation, with either no additional direct spending or minimal spending of the surplus. The RLF would be most effective in combination with PFCs, since PFCs would give airports a new source of funds with which to repay the loans. We believe the RLF concept has great merit and could provide additional capital funds airports need.

CONCLUSION

The task before us is formidable, and airports will need greater funding from the trust fund and new funding sources to do the job. We look forward to working with you, Mr. Chairman, to fix the trust fund and put its resources to work for aviation as it was intended. We also urge your support for PFCs to give airports the additional funds and greater financing capabilities they desperately need.

Thank you for holding this hearing on this critical issue and for giving us the opportunity to present our views. I would be pleased to answer any questions you may have.

ATTACHMENT

AIRPORT AND AIRWAY TRUST FUND PROGRAM FUNDING HISTORY

Fiscal Years 1982-1990
(In millions)

AIRPORT IMPROVEMENT PROGRAM

FY	AUTHORIZATION	APPROPRIATIONS	SHORTFALL
1982	$ 450	$ 450	--
1983	800	750	- 50
1984	994	800	-194
1985	987	925	- 62
1986	1,017	885	-132
1987	1,017	1,000	- 17
1988	1,700	1,269	-431
1989	1,700	1,400	-300
1990	1,700	1,425	-275
TOTAL	$ 10,365	8,904	-1,461

FACILITIES AND EQUIPMENT

FY	AUTHORIZATION	APPROPRIATIONS	SHORTFALL
1982	$ 261	$ 261	---
1983	725	625	-100
1984	1,393	750	-643
1985	1,407	1,370	- 37
1986	1,377	950	-427
1987	1,164	805	-359
1988	1,377	1,108	-269
1989	1,730	1,384	-346
1990	2,191	1,721	-470
TOTAL	$ 11,625	$ 8,974	-2,651

RESEARCH, ENGINEERING AND DEVELOPMENT

FY	AUTHORIZATION	APPROPRIATIONS	SHORTFALL
1982	$ 72	$ 72	----
1983	134	103	-31
1984	286	263	-23
1985	269	265	-4
1986	215	182	-33
1987	193	142	-51
1988	201	153	-48
1989	215	160	-55
1990	222	170	-52
TOTAL	$ 1,807	$ 1,510	-297
TOTAL ALL PROGRAMS	**$ 23,797**	**19,388**	**-4,409**

ATTACHMENT II

AOCI/AAAE U.S. AIRPORT

CAPITAL DEVELOPMENT NEEDS FOR

1990-2000

(as of January 9, 1990)

AIRPORT OPERATORS COUNCIL INTERNATIONAL
1220 19th Street, NW, Suite 800
Washington, DC 20036
202/293-8500
TeleFax: 202/331-1362

AMERICAN ASSOCIATION OF AIRPORT EXECUTIVES
4224 King Street
Alexandria, Va 22302
703/824-0500
TeleFax: 703/820-1395

AOCI/AAAE U.S. AIRPORT CAPITAL DEVELOPMENT NEEDS FOR 1990-2000
($ Billions)

	Expenditure by Year						Total 1991-1995	Total 1996-2000	Total All Needs 1991 - 200
HUB SIZE	1990	1991	1992	1993	1994	1995			
Large	4.8	3.9	3.9	3.9	3.9	3.9	19.7	8.0	27.7
Medium	1.7	1.2	1.2	1.2	1.2	1.2	6.0	3.8	9.8
Small	0.7	0.7	0.7	0.7	0.7	0.7	3.7	1.0	4.7
Non-Hub	1.0	1.0	1.0	1.0	1.0	1.0	5.0	2.1	7.1
Reliever	0.5	0.5	0.5	0.5	0.5	0.5	2.5	1.0	3.5
General Aviation	0.7	0.7	0.7	0.7	0.7	0.7	3.5	1.6	5.1
Total Cost (Constant $)	9.4	8.0	8.0	8.0	8.0	8.0	40.4	14.9	55.3
Inflation	0.8	1.1	1.6	2.1	2.6	3.1	10.1	11.7	21.8
Total Cost (Current $)	10.2	9.1	9.6	10.1	10.6	11.1	50.5	26.6	77.1

Notes:

1. Row figures may not sum to totals due to rounding. All costs are total project costs including overheads -- architectural and engineering, contingency and construction management costs.

2. Expenditures between 1991 and 1995 are averaged to better represent actual spending patterns. The survey results indicated larger expenditures in the early years which reflects the desire of airports to move ahead with needed capacity projects. Capital plans are less certain the further out one looks in the future, as indicated by the differences in magnitude of the 1991 - 1995 and 1996 - 2000 capital needs totals. In reality, actual expenditure patterns are more evenly spread because of project delays and the uncertainty of federal and other funding. For example, the $10.2 billion in needs indicated in 1990 will inevitably spill over into other years because of these constraints.

3. Inflation includes a 5% construction cost inflation factor and a minor adjustment for financial costs during construction.

4. The reliever and general aviation airport development costs are based on the FAA's preliminary 1990 NPIAS plan.

5. Total costs are conservative in that they do not include costs for new airports as identified by the NPIAS, except for the new Denver and Austin airports.

AOCI/AAAE U.S. AIRPORT CAPITAL DEVELOPMENT NEEDS SURVEY SAMPLE
(as of January 9, 1990)

HUB SIZE	Enplanements (Millions)	U.S. Total (NPIAS)	AOCI Sample	Survey Response Rate
Large Hub	4.8 +	29	29	100%
Medium Hub	1.3 - 4.8	42	27	64
Small Hub	.242 - 1.2	78	18	23
Non-Hub	.001 - .241	613	93	15
Reliever	---	274	274	Used FAA's NPIAS Costs
General Aviation	---	2474	2474	
Total		3510	2915	83%

March 12, 1990

Honorable James Oberstar
Chairman
Subcommittee on Aviation
Committee on Public Works & Transportation
2251 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Oberstar:

At the Subcommittee's hearing on February 6th regarding Future Airport Capacity Needs, AOCI/AAAE and FAA witnesses provided our respective cost estimates of future capital development needs for the nation's airports. The capital needs estimated by AOCI and AAAE were based on an extensive survey of airports to determine essential and needed capital improvement projects over the next five- and ten-year periods. FAA's projections were based on the preliminary 1990 National Plan of Integrated Airport Systems (NPIAS) estimate of AIP-eligible project costs.

During the hearing, you requested that FAA and AOCI/AAAE compare and reconcile our cost estimates. After a thorough assessment of the FAA's preliminary NPIAS estimates, additional non-NPIAS projects, and the AOCI/AAAE survey results, we have reached a reconciliation that we believe truly reflects the magnitude of airport development needs in the U.S.

We have attached a reconciliation chart and explanation which indicate the 1991-95 reconciled AIP-eligible needs at about $30 billion in 1989 constant dollars. The FAA and AOCI/AAAE total airport capital needs for the same period are $36 billion and $40 billion (constant dollars), respectively. The AOCI/AAAE estimate when adjusted for inflation equals $50 billion over the five-year period.

Our ten-year projections for years 1991-2000 are between $55-58 billion in constant dollars.

The FAA and AOCI/AAAE believe that reconciliation of the two independently derived needs estimates has been attained. We hope our capital needs estimates are helpful to you and the Subcommittee in your deliberations. We request that this letter and attached reconciliation be included in the hearing record.

Sincerely,

George P. Howard
Executive Director
AOCI

Leonard Griggs
Associate Administrator for Airports
FAA

3/13/90

RECONCILIATION OF AOCI/AAAE AIRPORT CAPITAL DEVELOPMENT NEEDS SURVEY AND THE FAA ESTIMATES

DOT/FAA AND AOCI/AAAE AIRPORT CAPITAL DEVELOPMENT NEEDS

RECONCILIATION

(In billions of 1989 Constant Dollars)

1991-1995

	DOT/FAA	AOCI/AAAE
AIP-ELIGIBLE	30.8	30.4
OTHER PROJECT COSTS	5.0	10.0
TOTAL AIRPORT CAPITAL NEEDS	35.8	40.4
COSTS IN CURRENT YEAR DOLLARS	-	50.5*

1991-2000

	DOT/FAA	AOCI/AAAE
AIP-ELIGIBLE	48.4	38.0
OTHER PROJECT COSTS	10.0	17.3
TOTAL AIRPORT CAPITAL NEEDS	58.4	55.3
COSTS IN CURRENT YEAR DOLLARS	-	77.1*

* AOCI/AAAE costs inflated at 5% per year.

RECONCILIATION NOTES

1. The 1991-1995 AIP-eligible numbers estimated independently by both DOT/FAA and AOCI/AAAE match at $30 billion in 1989 constant dollars.

2. The FAA total AIP-eligible number includes three cost components: $23.3 for the NPIAS, $5.0 billion for additional noise mitigation, and $2.5 billion for additional new airports. The additional costs are an adjustment for the greater uncertainties inherent in the NPIAS process in estimating noise mitigation and new airport projects.

3. The Other Project Costs category consists of projects not eligible for AIP funding including: revenue producing portions of the passenger terminals (approximately 50% of total terminal), cargo terminals, surface and structure parking, and certain on-airport roadway access and circulatory costs.

The AOCI/AAAE estimate of other project costs is $10 billion and the DOT/FAA estimate is $5 billion. It is important to note that the AOCI survey includes all airport capital needs, both AIP-eligible and AIP-ineligible, whereas the NPIAS only considers AIP-eligible projects. Since the AOCI/AAAE estimate of AIP-ineligible costs is based on actual survey results, it has a higher degree of accuracy.

4. The total five year capital needs are extremely close - DOT/FAA $36 billion and AOCI/AAAE $40 billion in constant dollars. The AOCI/AAAE 1991-95 total needs in current year dollars are $50.5 billion.

5. The close correspondence of the 1991-95 results is significant because estimation is more precise in the near term.

6. The 1991-2000 total airport capital needs are also very close: DOT/FAA $58 billion and AOCI/AAAE $55 billion. AOCI/AAAE estimate lower AIP-eligible costs and more other project costs.

7. Both the DOT/FAA and the AOCI/AAAE estimates are conservative since they do not include off-airport access or intermodal transportation connection needs. These costs are estimated to be at least $5 billion.

8. This reconciliation demonstrates that airport capital development needs are significant as measured independently by the organizations closest to the airports, the U.S. DOT/FAA and AOCI/AAAE.

ATTACHMENT III

PASSENGER FACILITY CHARGE REVENUE ENHANCEMENT

FOR AIRPORT DEVELOPMENT FINANCING

AOCI/AAAE PFC Proposal vs. DOT/FAA PFC Plan

April 13, 1990

(Figures correspond to 1988 total enplanements and estimated FY 1990 AIP entitlements.
Please see footnotes below for explanation of columns)

NO.	LOC	AIRPORT NAME	1988 TOTAL ENPLANEMENTS	1990 EST. AIP ENTITLEMENTS	PFC ($3) REVENUE/1	PFC BONDING POWER/2	DOT/FAA PFC PLUS- AIP ENTITLEMENTS RETURNED/3	AOCI/AAAE PFC PLUS- AIP ENTITLEMENTS RETURNED/4	TOTAL ANNUAL PFC PLUS AIP REVENUE AOCI/AAAE PLAN	TOTAL ANNUAL PFC PLUS AIP REVENUE DOT PLAN
1.	ORD	CHICAGO-O'HARE	28,273,843	$16,000,000	$84,821,529	$706,818,381	$16,000,000	$8,000,000	$92,821,529	$84,821,50
2.	ATL	ATLANTA	23,058,079	$16,000,000	$69,174,237	$576,428,917	$16,000,000	$8,000,000	$77,174,237	$69,174,2
3.	DFW	DALLAS-FORT WORTH	22,236,591	$15,810,784	$66,709,773	$555,892,538	$15,810,784	$7,909,392	$74,619,165	$66,709,77
4.	LAX	LOS ANGELES	21,646,727	$15,435,373	$64,940,181	$541,146,520	$15,435,373	$7,717,687	$72,657,868	$64,94C,1
5.	JFK	NEW YORK-KENNEDY	15,236,311	$11,268,602	$45,708,933	$380,892,539	$11,268,602	$5,634,301	$51,343,234	$45,708,9
6.	DEN	DENVER	14,972,728	$11,097,273	$44,918,184	$374,303,227	$11,097,273	$5,548,637	$50,466,821	$44,918,1
7.	SFO	SAN FRANCISCO	14,852,565	$11,019,167	$44,557,695	$371,299,272	$11,019,167	$5,509,584	$50,067,279	$44,557,6
8.	MIA	MIAMI	12,094,354	$9,226,330	$36,283,062	$302,346,756	$9,226,330	$4,613,165	$40,896,227	$36,283,0
9.	LGA	NEW YORK-LAGUARDIA	12,085,339	$9,220,470	$36,256,017	$302,121,390	$9,220,470	$4,610,235	$40,866,252	$36,256,0
10.	BOS	BOSTON	11,362,680	$8,680,747	$34,088,044	$284,053,637	$8,680,747	$4,440,374	$39,128,430	$34,088,0
11.	EWR	NEWARK	11,319,238	$8,722,505	$33,957,714	$282,969,631	$8,722,505	$4,361,253	$38,318,967	$33,957,7
12.	HNL	HONOLULU	10,293,926	$8,056,052	$30,881,778	$257,337,856	$8,056,052	$4,028,026	$34,909,804	$30,881,7
13.	STL	ST.LOUIS	10,056,110	$7,901,672	$30,168,330	$251,392,694	$7,901,672	$3,950,736	$34,119,066	$30,168,3
14.	DET	DETROIT	9,812,784	$7,743,310	$29,438,352	$245,309,787	$7,743,310	$3,871,655	$33,310,007	$29,438,3
15.	PHX	PHOENIX	9,256,974	$7,577,033	$28,670,922	$238,914,793	$7,577,033	$3,788,517	$32,459,439	$28,670,9
16.	PIT	PITTSBURGH	8,942,025	$7,177,316	$26,826,075	$223,541,683	$7,177,316	$3,588,658	$30,414,733	$26,826,0
17.	MSP	MINNEAPOLIS	8,826,310	$7,102,102	$26,478,930	$220,648,924	$7,102,102	$3,551,051	$30,029,981	$26,478,9
18.	MCO	ORLANDO	8,062,984	$6,605,940	$24,188,952	$201,566,237	$6,605,940	$3,302,970	$27,491,922	$24,188,9
19.	LAS	LAS VEGAS	7,838,293	$6,459,890	$23,514,879	$195,949,487	$6,459,890	$3,229,945	$26,744,824	$23,514,8
20.	PHL	PHILADELPHIA	7,744,092	$6,398,660	$23,232,276	$193,594,536	$6,398,660	$3,199,330	$26,431,686	$23,232,2
21.	DCA	WASHINGTON-NATIONAL	7,709,389	$6,376,233	$23,128,767	$192,732,015	$6,376,233	$3,188,117	$26,316,884	$23,128,7
22.	SEA	SEATTLE	7,407,473	$6,179,861	$22,222,419	$185,179,418	$6,179,861	$3,089,931	$25,312,350	$22,222,4
23.	CLT	CHARLOTTE	7,348,565	$6,101,567	$22,045,695	$183,706,774	$6,101,567	$3,050,784	$25,116,479	$22,045,6
24.	IAH	HOUSTON	7,300,470	$6,110,306	$21,901,410	$182,504,450	$6,110,306	$3,055,153	$24,956,563	$21,901,4
25.	SAN	SAN DIEGO	5,348,636	$4,841,613	$16,045,908	$133,710,551	$4,841,613	$2,420,807	$18,466,715	$16,045,9
26.	BWI	BALTIMORE	4,988,093	$4,687,260	$14,964,279	$124,697,337	$4,687,260	$2,343,630	$17,267,909	$14,964,2
27.	SLC	SALT LAKE CITY	4,975,727	$4,599,223	$14,927,181	$124,388,199	$4,599,223	$2,299,612	$17,226,793	$14,927,1
28.	TPA	TAMPA BAY	4,903,612	$4,552,348	$14,710,836	$122,585,396	$4,552,348	$2,276,174	$16,987,010	$14,710,1
29.	MEM	MEMPHIS	4,832,107	$4,832,107	$14,496,321	$120,797,843	$4,832,107	$2,416,054	$16,912,375	$14,496,3
30.	MCI	KANSAS CITY	4,719,311	$4,432,682	$14,158,333	$117,983,055	$4,432,682	$2,216,341	$16,374,874	$14,158,
31.	IAD	WASHINGTON-DULLES	4,608,798	$4,360,712	$13,826,364	$115,219,091	$4,360,712	$2,180,356	$16,006,720	$13,826,
		Sub-Total Large Hub	332,614,352	$254,744,938	$997,843,636	$8,315,031,185	$254,744,938	$127,372,469	$1,125,216,125	$997,843,

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32.	FLL	FORT LAUDERDALE	4,295,177	$4,156,865	$12,885,531	$197,375,130	$4,156,865	$2,078,433	$14,963,964	$12,885,531
33.	SJU	SAN JUAN	4,011,237	$3,972,304	$12,033,711	$180,276,914	$3,972,304	$1,986,152	$10,019,863	$12,033,711
34.	CVG	CINCINNATI	4,009,952	$3,971,469	$12,029,856	$180,244,790	$3,971,469	$1,985,735	$14,015,591	$12,029,856
35.	HOU	HOUSTON-HOBBY	3,847,879	$3,865,601	$11,541,237	$96,173,128	$3,865,601	$1,932,801	$13,474,038	$11,541,237
36.	CLE	CLEVELAND	3,757,170	$3,867,161	$11,271,510	$93,925,092	$3,867,161	$1,903,581	$13,175,091	$11,271,310
37.	RDU	RALEIGH	3,679,991	$3,756,994	$11,039,973	$91,996,095	$3,756,994	$1,878,497	$12,918,470	$11,039,973
38.	BNA	NASHVILLE	3,435,482	$3,598,063	$10,306,446	$85,863,615	$3,598,063	$1,799,032	$12,105,478	$10,306,446
39.	MSY	NEW ORLEANS	3,395,322	$3,513,459	$9,915,966	$82,629,745	$3,513,459	$1,756,730	$11,672,696	$9,915,966
40.	MDW	CHICAGO-MIDWAY	3,265,850	$3,487,883	$9,797,550	$81,642,984	$3,487,883	$1,743,902	$11,541,452	$9,797,550
41.	PDX	PORTLAND	2,953,240	$3,284,606	$8,859,720	$73,828,047	$3,284,606	$1,642,303	$10,302,023	$8,859,720
42.	SJC	SAN JOSE	2,872,912	$3,232,393	$8,618,736	$71,819,927	$3,232,393	$1,616,197	$10,234,933	$8,618,736
43.	IND	INDIANAPOLIS	2,369,385	$3,035,100	$7,108,155	$44,232,956	$3,035,100	$1,517,550	$9,225,785	$7,108,155
44.	SAT	SAN ANTONIO	2,516,140	$3,000,491	$7,548,420	$62,900,984	$3,000,491	$1,500,246	$9,048,666	$7,548,420
45.	DAL	DALLAS-LOVE FIELD	2,490,831	$2,977,020	$7,470,093	$62,248,285	$2,977,020	$1,488,510	$8,958,603	$7,470,093
46.	PBI	WEST PALM BEACH	2,489,025	$2,952,873	$7,467,105	$62,223,386	$2,952,873	$1,476,437	$8,943,542	$7,467,105
47.	BDL	HARTFORD	2,476,907	$2,974,990	$7,430,721	$61,920,198	$2,974,990	$1,487,495	$8,918,216	$7,430,721
48.	DAY	DAYTON	2,395,740	$2,922,231	$7,187,220	$59,891,164	$2,922,231	$1,461,116	$8,648,336	$7,187,220
49.	ONT	ONTARIO	2,375,797	$2,909,268	$7,127,391	$59,392,549	$2,909,268	$1,454,634	$8,582,025	$7,127,391
50.	SNA	ORANGE COUNTY	2,214,060	$2,804,139	$6,642,180	$55,349,286	$2,804,139	$1,402,070	$8,044,250	$6,642,180
51.	ABQ	ALBUQUERQUE	2,115,825	$2,819,604	$6,347,475	$52,893,569	$2,819,604	$1,409,802	$7,757,277	$6,347,475
52.	OGG	KAHULUI	2,026,019	$2,732,899	$6,078,057	$50,648,449	$2,732,899	$1,366,450	$7,444,567	$6,078,057
53.	OAK	OAKLAND	1,931,298	$2,620,344	$5,793,894	$48,280,519	$2,620,344	$1,310,172	$7,104,066	$5,793,894
54.	AUS	AUSTIN	1,925,226	$2,616,397	$5,775,678	$48,128,725	$2,616,397	$1,308,199	$7,083,877	$5,775,678
55.	MKE	MILWAUKEE	1,912,997	$2,660,396	$5,738,991	$47,823,012	$2,660,396	$1,330,198	$7,069,189	$5,738,991
56.	SMF	SACRAMENTO	1,872,044	$2,581,829	$5,616,132	$46,799,228	$2,581,829	$1,290,915	$6,907,047	$5,616,132
57.	CMH	COLUMBUS	1,846,261	$2,565,070	$5,538,783	$46,154,679	$2,565,070	$1,282,535	$6,821,318	$5,538,783
58.	BUF	BUFFALO	1,822,029	$2,549,319	$5,466,087	$45,548,903	$2,549,319	$1,274,660	$6,740,747	$5,466,087
59.	RNO	RENO	1,631,045	$2,425,179	$4,893,135	$40,774,494	$2,425,179	$1,212,590	$6,105,725	$4,893,135
60.	ORF	NORFOLK	1,594,914	$2,401,694	$4,784,742	$39,871,255	$2,392,371	$1,200,847	$5,985,589	$4,794,065
61.	SYR	SYRACUSE	1,576,878	$2,389,971	$4,730,634	$39,420,373	$2,365,317	$1,194,986	$5,925,620	$4,753,298
62.	BUR	BURBANK	1,529,987	$2,356,242	$4,574,961	$38,123,150	$2,287,481	$1,178,121	$5,753,082	$4,643,723
63.	RSW	FORT MYERS	1,513,799	$2,348,969	$4,541,397	$37,843,461	$2,270,699	$1,174,485	$5,715,882	$4,619,668

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64.	OKC	OKLAHOMA CITY	1,510,799	$2,347,013	$4,532,367	$37,760,214	$2,266,184	$1,173,507	$5,705,874	$4,613,197
65.	TUS	TUCSON	1,435,301	$2,297,946	$4,305,903	$35,881,090	$2,152,952	$1,148,973	$5,454,876	$4,450,898
66.	ELP	EL PASO	1,430,463	$2,294,801	$4,291,389	$35,760,145	$2,145,695	$1,147,401	$5,438,790	$4,440,496
67.	ANC	ANCHORAGE	1,422,848	$2,289,331	$4,266,144	$35,549,778	$2,133,072	$1,144,666	$5,410,810	$4,422,403
68.	TUL	TULSA	1,368,845	$2,254,749	$4,106,535	$34,219,756	$2,053,268	$1,127,375	$5,233,910	$4,308,017
69.	JAX	JACKSONVILLE	1,352,442	$2,244,087	$4,057,326	$33,809,698	$2,028,663	$1,122,044	$5,179,378	$4,272,750
70.	ROC	ROCHESTER	1,307,677	$2,214,990	$3,923,031	$32,690,617	$1,961,316	$1,107,495	$5,030,526	$4,176,506
71.	LIH	LIHUE	1,280,807	$2,197,325	$3,842,421	$32,018,894	$1,921,211	$1,098,763	$4,941,184	$4,118,736
		Sub-Total Medium Hub	93,342,291	$115,431,185	$280,006,663	$2,333,961,663	$113,772,292	$57,715,593	$337,802,196	$281,745,496
72.	PVD	PROVIDENCE	1,113,059	$2,088,488	$3,339,177	$27,825,362	$1,669,589	$0	$5,427,665	$3,758,077
73.	OMA	OMAHA	1,106,978	$2,084,536	$3,320,934	$27,673,343	$1,660,467	$0	$5,405,470	$3,745,003
74.	SDF	LOUISVILLE	1,089,305	$2,073,048	$3,267,915	$27,231,536	$1,633,950	$0	$5,340,963	$3,707,006
75.	ALB	ALBANY	1,046,751	$2,045,388	$3,140,253	$26,167,729	$1,570,127	$0	$5,185,641	$3,615,515
76.	GSO	GREENSBORO	1,004,294	$2,017,733	$3,012,612	$25,104,096	$1,506,306	$0	$5,030,345	$3,524,039
77.	BHM	BIRMINGHAM	992,640	$2,010,216	$2,977,920	$24,815,007	$1,488,960	$0	$4,988,136	$3,499,176
78.	RIC	RICHMOND	922,265	$1,964,472	$2,766,795	$23,055,793	$1,383,398	$0	$4,731,267	$3,347,870
79.	LIT	LITTLE ROCK	894,413	$1,946,368	$2,683,239	$22,359,431	$1,341,620	$0	$4,629,607	$3,287,908
80.	SRQ	SARASOTA	874,825	$1,933,634	$2,624,475	$21,869,750	$1,312,230	$0	$4,545,829	$3,191,515
81.	KOA	KAILUA	849,542	$1,917,202	$2,548,626	$21,237,700	$1,274,313	$0	$4,203,225	$3,036,831
82.	GEG	SPOKANE	777,596	$1,870,437	$2,332,788	$19,439,122	$1,166,394	$0	$4,203,225	$3,036,831
83.	GUM	GUAM	754,340	$1,855,321	$2,263,020	$18,857,746	$1,131,510	$0	$4,118,341	$2,986,831
84.	DSM	DES MOINES	748,195	$1,851,327	$2,244,585	$18,704,127	$1,122,293	$0	$4,095,912	$2,973,620
85.	CHS	CHARLESTON	718,479	$1,832,011	$2,155,434	$17,961,232	$1,077,717	$0	$3,987,445	$2,909,728
86.	STT	ST. THOMAS	689,853	$1,813,464	$2,069,559	$17,245,635	$1,034,780	$0	$3,882,963	$2,848,184
87.	PWM	PORTLAND,MAINE	689,631	$1,813,296	$2,068,893	$17,240,085	$1,034,447	$0	$3,882,153	$2,847,707
88.	GRR	GRAND RAPIDS	650,926	$1,793,382	$1,976,778	$16,472,691	$988,389	$0	$3,770,080	$2,781,691
89.	COS	COLORADO SPRINGS	654,070	$1,790,146	$1,962,210	$16,351,996	$981,105	$0	$3,752,356	$2,771,251
90.	ICT	WICHITA	647,843	$1,786,098	$1,943,529	$16,195,427	$971,765	$0	$3,729,627	$2,757,863
91.	TYS	KNOXVILLE	628,849	$1,773,745	$1,886,607	$15,721,096	$943,304	$0	$3,660,372	$2,717,069
92.	MAF	MIDLAND	609,917	$1,761,446	$1,829,751	$15,247,315	$914,876	$0	$3,591,197	$2,676,322

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93.	ISP	ISLIP	602,813	$1,756,820	$1,800,439	$15,069,722	$904,220	$0	$3,565,267	$2,661,048
94.	LGB	LONG BEACH	587,663	$1,744,981	$1,762,989	$14,690,987	$881,495	$0	$3,509,970	$2,628,476
95.	CAE	COLUMBIA	584,303	$1,745,664	$1,752,909	$14,606,991	$876,455	$0	$3,498,573	$2,622,119
96.	GSP	GREENVILLE	584,303	$1,744,800	$1,752,909	$14,606,991	$876,455	$0	$3,497,709	$2,621,253
97.	LBB	LUBBOCK	583,944	$1,744,565	$1,751,838	$14,598,066	$875,919	$0	$3,496,903	$2,620,484
98.	MDT	HARRISBURG	571,782	$1,722,300	$1,715,346	$14,293,978	$857,673	$0	$3,437,646	$2,579,973
99.	ITO	HILO	534,995	$1,727,047	$1,670,985	$13,924,318	$835,493	$0	$3,398,032	$2,562,540
100.	BOI	BOISE	545,129	$1,719,328	$1,635,360	$13,627,455	$817,680	$0	$3,354,680	$2,537,008
101.	SAV	SAVANNAH	534,413	$1,712,368	$1,603,239	$13,359,791	$801,620	$0	$3,315,607	$2,513,988
102.	HRL	HARLINGEN	512,098	$1,698,384	$1,538,694	$12,821,937	$769,347	$0	$3,237,078	$2,467,731
103.	BGR	BANGOR	500,961	$1,690,586	$1,502,703	$12,522,024	$751,352	$0	$3,193,289	$2,441,938
104.	BTV	BURLINGTON	466,395	$1,603,147	$1,399,185	$11,666,488	$699,893	$0	$3,002,932	$2,303,040
105.	TLH	TALAHASSEE	450,480	$1,561,248	$1,351,440	$11,261,350	$675,720	$0	$2,912,688	$2,236,968
106.	DAB	DAYTONA BEACH	444,487	$1,545,666	$1,333,461	$11,111,731	$666,731	$0	$2,879,127	$2,212,397
107.	AMA	AMARILLO	440,621	$1,535,615	$1,321,863	$11,015,084	$660,932	$0	$2,857,478	$2,196,547
108.	FAT	FRESNO	439,641	$1,533,067	$1,318,923	$10,990,585	$659,462	$0	$2,851,990	$2,192,529
109.	LEX	LEXINGTON	432,059	$1,513,353	$1,296,177	$10,801,043	$648,089	$0	$2,809,530	$2,161,442
110.	HSV	HUNTSVILLE	431,919	$1,512,999	$1,295,757	$10,797,543	$647,879	$0	$2,808,746	$2,160,868
111.	MSN	MADISON	431,345	$1,511,497	$1,294,035	$10,783,194	$647,018	$0	$2,805,532	$2,158,515
112.	JAN	JACKSON	427,950	$1,502,670	$1,283,850	$10,698,322	$641,925	$0	$2,786,520	$2,144,595
113.	PSP	PALM SPRINGS	406,823	$1,447,896	$1,220,469	$10,170,168	$610,235	$0	$2,668,365	$2,058,131
114.	CRP	CORPUS CHRISTI	405,793	$1,443,062	$1,217,379	$10,144,819	$608,690	$0	$2,662,441	$2,053,752
115.	BTR	BATON ROUGE	399,562	$1,428,861	$1,198,686	$9,988,650	$599,343	$0	$2,627,547	$2,028,204
116.	PNS	PENSACOLA	397,701	$1,424,023	$1,193,103	$9,942,127	$596,532	$0	$2,617,126	$2,020,375
117.	ABE	EASTON	394,025	$1,414,465	$1,182,075	$9,850,231	$591,038	$0	$2,596,540	$2,005,503
118.	MOB	MOBILE	387,066	$1,396,424	$1,161,258	$9,676,763	$580,629	$0	$2,557,682	$1,977,053
119.	STX	ST. CROIX	386,340	$1,394,484	$1,159,020	$9,658,114	$579,510	$0	$2,553,504	$1,973,994
120.	CID	CEDAR RAPIDS	382,351	$1,384,113	$1,147,053	$9,558,393	$573,527	$0	$2,531,166	$1,957,640
121.	SBN	SOUTH BEND	363,951	$1,336,273	$1,091,853	$9,098,611	$545,927	$0	$2,428,126	$1,882,200
122.	CAK	AKRON	361,923	$1,331,000	$1,085,769	$9,047,713	$542,885	$0	$2,416,769	$1,873,885
123.	SHV	SHREVEPORT	351,824	$1,304,742	$1,055,472	$8,795,248	$527,736	$0	$2,360,214	$1,832,478
124.	GCN	GRAND CANYON	350,252	$1,300,633	$1,050,756	$8,755,950	$525,378	$0	$2,351,411	$1,826,033

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125.	ROA	ROANOKE	348,296	$1,295,544	$1,044,000	$8,707,052	$522,444	$0	$2,340,432	$1,817,988
126.	HPN	WHITE PLAINS	335,743	$1,262,932	$1,007,229	$8,393,239	$503,615	$0	$2,270,161	$1,766,547
127.	FWA	FORT WAYNE	321,806	$1,226,696	$965,418	$8,044,829	$482,709	$0	$2,192,114	$1,709,405
128.	ACY	ATLANTIC CITY	315,057	$1,209,148	$945,171	$7,876,110	$472,586	$0	$2,154,319	$1,681,734
129.	MLI	MOLINE	312,348	$1,202,105	$937,044	$7,808,388	$468,522	$0	$2,139,149	$1,670,627
130.	MLB	MELBOURNE	311,938	$1,201,039	$935,814	$7,798,138	$467,907	$0	$2,136,853	$1,668,946
131.	SBA	SANTA BARBARA	308,756	$1,192,766	$926,268	$7,718,591	$463,134	$0	$2,119,034	$1,655,900
132.	CHA	CHATANOOGA	305,043	$1,183,112	$915,129	$7,625,770	$457,565	$0	$2,098,241	$1,640,677
133.	TOL	TOLEDO	299,012	$1,164,831	$894,036	$7,450,002	$447,018	$0	$2,058,867	$1,611,849
134.	BIL	BILLINGS	296,883	$1,161,896	$890,649	$7,421,778	$445,325	$0	$2,052,545	$1,607,221
135.	MYR	MYRTLE BEACH	269,267	$1,090,094	$807,801	$6,731,466	$403,901	$0	$1,897,895	$1,493,995
136.	CRW	CHARLESTON, WV	268,193	$1,087,302	$804,579	$6,704,657	$402,290	$0	$1,891,881	$1,489,592
		Sub Total Small Hub	35,880,907	$103,735,170	$107,642,721	$896,986,794	$53,821,361	$0	$211,377,891	$157,556,531
137.	LNK	LINCOLN	250,908	$1,063,161	$776,724	$6,472,441	$388,342	$0	$1,829,885	$1,451,523
138.	JNU	JUNEAU	250,596	$1,062,350	$775,788	$6,464,641	$387,894	$0	$1,828,138	$1,450,244
139.	EUG	EUGENE	256,038	$1,055,699	$768,114	$6,400,694	$384,057	$0	$1,823,813	$1,439,756
140.	EVV	EVANSVILLE	251,657	$1,044,308	$754,971	$6,291,173	$377,486	$0	$1,799,279	$1,421,794
141.	MRY	CARMEL	251,311	$1,043,409	$753,933	$6,282,524	$376,967	$0	$1,797,342	$1,420,376
142.	GRB	GREEN BAY	248,126	$1,035,129	$744,378	$6,202,902	$372,109	$0	$1,779,506	$1,407,317
143.	MHT	MANCHESTER	247,331	$1,033,061	$741,993	$6,183,028	$370,997	$0	$1,775,054	$1,404,058
144.	FAI	FAIRBANKS	242,326	$1,020,048	$726,978	$6,057,908	$363,489	$0	$1,747,026	$1,383,537
145.	FSD	SIOUX FALLS	238,867	$1,011,054	$716,601	$5,971,436	$358,301	$0	$1,727,635	$1,369,355
146.	SGF	SPRINGFIELD	236,331	$1,004,461	$708,993	$5,908,039	$354,497	$0	$1,713,454	$1,358,958
147.	AGS	AUGUSTA	230,545	$989,417	$691,635	$5,763,394	$345,810	$0	$1,681,052	$1,333,235
148.	MBS	BAY CITY	229,910	$987,766	$689,730	$5,747,520	$344,865	$0	$1,677,496	$1,332,631
149.	ABE	ASPEN	228,154	$983,200	$684,462	$5,703,622	$342,231	$0	$1,667,662	$1,325,431
150.	AZO	KALAMAZOO	226,379	$979,105	$679,737	$5,664,248	$339,849	$0	$1,658,842	$1,318,974
151.	TRI	KINGSPORT	226,430	$978,718	$679,290	$5,660,324	$339,645	$0	$1,658,000	$1,318,363
152.	AVP	WILKES BARRE	225,516	$976,342	$676,548	$5,637,674	$338,274	$0	$1,652,890	$1,314,616
153.	LAN	LANSING	223,874	$972,072	$671,622	$5,596,626	$335,811	$0	$1,643,694	$1,307,883
154.	FAY	FAYETTEVILLE	216,446	$952,760	$649,338	$5,410,934	$324,669	$0	$1,602,998	$1,277,429
155.	AVL	ASHEVILLE	214,027	$1,107,670	$648,081	$5,400,459	$324,041	$0	$1,755,751	$1,431,711
156.	MGM	MONTGOMERY	212,897	$943,532	$638,691	$5,322,212	$319,346	$0	$1,582,223	$1,262,878

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(Figures correspond to 1988 total enplanements and estimated FY 1990 AIP entitlements.
Please see footnotes below for explanation of columns)

NO.	LOC	AIRPORT NAME	1988 TOTAL ENPLANEMENTS	1990 EST. AIP ENTITLEMENTS	PFC (63) REVENUE/1	PFC BONDING POWER/2	DOT/FAA PFC PLAN- AIP ENTITLEMENTS RETURNED/3	AOCI/AAAE PFC PLAN- AIP ENTITLEMENTS RETURNED/4	TOTAL ANNUAL PFC PLUS AIP REVENUE AOCI/AAAE PLAN	TOTAL ANNUAL PFC PLUS AIP REVENUE DOT PLAN
157.	PIA	PEORIA	210,810	$930,106	$632,430	$5,270,039	$316,215	$0	$1,570,536	$1,254,321
158.	MFE	MCALLEN	207,363	$916,144	$607,089	$5,058,873	$303,545	$0	$1,523,233	$1,219,689
159.	GNV	GAINESVILLE	198,782	$906,833	$576,346	$4,969,351	$298,173	$0	$1,503,179	$1,205,006
160.	PIE	ST.PETERSBURG	198,516	$714,906	$595,548	$4,962,781	$297,774	$0	$1,310,454	$1,012,680
161.	ILM	WILMINGTON, NC	198,122	$905,117	$594,366	$4,952,852	$297,183	$0	$1,499,483	$1,202,300
162.	FAR	FARGO	196,393	$900,622	$589,179	$4,909,629	$294,590	$0	$1,489,001	$1,195,212
163.	BGM	BINGHAMPTON	194,497	$895,692	$583,491	$4,862,231	$291,746	$0	$1,479,183	$1,187,438
164.	GSH	SAIPAN	178,238	$853,419	$534,714	$4,455,772	$267,357	$0	$1,388,133	$1,120,776
165.	PSC	PASCO	175,007	$805,740	$525,021	$4,375,000	$262,511	$0	$1,330,761	$1,068,251
166.	ORH	WORCESTER	171,700	$836,420	$515,100	$4,292,328	$257,550	$0	$1,351,520	$1,093,970
167.	CMI	CHAMPAIGN	170,937	$834,434	$512,811	$4,273,254	$256,406	$0	$1,347,247	$1,090,842
168.	ERI	ERIE	170,487	$833,266	$511,461	$4,262,005	$255,731	$0	$1,344,727	$1,088,997
169.	MSO	MISSOULA	169,948	$831,965	$509,844	$4,248,530	$254,922	$0	$1,341,709	$1,086,787
170.	GJT	GRAND JUNCTION	164,473	$804,398	$493,419	$4,111,661	$246,710	$0	$1,377,817	$1,131,108
171.	EYW	KEY WEST	163,974	$816,332	$491,922	$4,099,186	$245,961	$0	$1,308,254	$1,062,293
172.	RAP	RAPID CITY	162,609	$812,263	$487,227	$4,060,063	$243,614	$0	$1,299,490	$1,055,877
173.	MKK	MOLOKAI	160,860	$808,236	$482,580	$4,021,339	$241,290	$0	$1,290,816	$1,049,526
174.	ATW	APPLETON	160,044	$806,114	$480,132	$4,000,990	$240,066	$0	$1,286,246	$1,046,180
175.	RST	ROCHESTER, MN	155,663	$794,724	$466,989	$3,891,419	$233,495	$0	$1,261,713	$1,028,219
176.	MFR	MEDFORD	146,423	$770,700	$439,269	$3,660,429	$219,635	$0	$1,209,969	$990,335
177.	DET	DETROIT CITY	142,579	$760,705	$427,737	$3,564,332	$213,860	$0	$1,188,642	$974,574
178.	VPS	VALPARAISO	140,430	$755,118	$421,290	$3,510,610	$210,645	$0	$1,176,408	$965,763
179.	ACK	NANTUCKET	136,729	$745,495	$410,187	$3,418,088	$205,094	$0	$1,155,682	$950,589
180.	CHO	CHARLOTTESVILLE	135,853	$743,223	$407,565	$3,396,279	$203,783	$0	$1,150,788	$947,006
181.	SPI	SPRINGFIELD, IL	133,666	$737,332	$400,998	$3,341,516	$200,499	$0	$1,138,530	$938,031
182.	FNT	FLINT	133,287	$736,338	$399,621	$3,330,042	$199,811	$0	$1,135,959	$936,149
183.	GTF	GREAT FALLS	131,667	$732,334	$395,001	$3,291,543	$197,501	$0	$1,127,335	$929,835
184.	BIS	BISMARCK	131,352	$732,035	$394,056	$3,288,668	$197,320	$0	$1,126,691	$929,363
185.	BLI	BELLINGHAM	129,085	$725,621	$387,255	$3,226,996	$193,620	$0	$1,112,876	$919,249
186.	ITH	ITHACA	128,274	$723,312	$384,822	$3,206,722	$192,411	$0	$1,108,334	$915,923
187.	BFL	BAKERSFIELD	126,901	$719,943	$380,703	$3,172,398	$190,352	$0	$1,100,646	$910,295

April 13, 1990

(Figures correspond to 1988 total enplanements and estimated FY 1990 Al[illegible]/essents.
Please see footnotes below for explanatory columns)

NO.	LOC	AIRPORT NAME	1988 TOTAL ENPLANEMENTS	1990 EST. AIP ENTITLEMENTS	PFC (63) REVENUE/1	PFC BONDING POWER/2	DOT/FAA PFC PLAN- AIP ENTITLEMENTS RETURNED/3	AOCI/AAAE PFC PLAN- AIP ENTITLEMENTS RETURNED/4	TOTAL ANNUAL PFC PLUS AIP REVENUE AOCI/AAAE PLAN	TOTAL ANNUAL PFC PLUS AIP REVENUE DOT PLAN
188.	JAC	JACKSON HOLE	125,369	$715,959	$376,107	$3,134,100	$180,054	$0	$1,092,066	$904,013
189.	LFT	LAFAYETTE	119,157	$700,744	$357,471	$2,978,806	$178,736	$0	$1,058,215	$879,480
190.	ELM	ELMIRA	118,804	$698,890	$356,412	$2,969,981	$178,206	$0	$1,055,302	$877,096
191.	SUX	SIOUX CITY	118,152	$697,195	$354,456	$2,953,682	$177,228	$0	$1,051,651	$874,423
192.	DLH	DULUTH	117,861	$696,439	$353,583	$2,946,407	$176,792	$0	$1,050,022	$873,231
193.	BZN	BOZEMAN	117,115	$694,499	$351,345	$2,927,758	$175,673	$0	$1,045,844	$870,172
194.	KTN	KETCHIKAN	116,474	$692,832	$349,422	$2,911,734	$174,711	$0	$1,042,256	$867,543
195.	CWA	WAUSAU	114,863	$688,644	$344,589	$2,871,460	$172,295	$0	$1,033,233	$860,939
196.	PHF	NEWPORT NEWS	114,454	$688,100	$343,962	$2,866,235	$171,981	$0	$1,032,062	$860,081
197.	FYV	FAYETTEVILLE, AR	114,330	$687,258	$342,990	$2,858,136	$171,495	$0	$1,030,248	$858,753
198.	HLU	HONROE	108,741	$672,727	$326,223	$2,718,416	$163,112	$0	$998,950	$835,839
199.	OAJ	JACKSONVILLE, NC	108,583	$672,316	$325,749	$2,714,466	$162,875	$0	$998,065	$835,191
200.	HTS	ASHLAND, KY	106,199	$666,117	$318,597	$2,654,869	$159,299	$0	$984,714	$825,416
		Sub Total Non Hub	11,245,762	$54,192,170	$33,737,286	$281,132,804	$16,868,643	$0	$87,929,456	$71,040,813
		GRAND TOTAL	473,103,422	$529,103,463	$1,419,310,266	$11,827,112,447	$439,207,234	$185,088,062	$1,762,325,648	$1,508,204,496

Notes to AOCI/AAAE and DOT/FAA Plans

1. Passenger Facility Charge (PFC) revenues are based upon a $3.00 per passenger enplanement fee.

2. PFC bonding power assumes a 8.0% interest rate and 15 year term to maturity. It represents the estimated total borrowing power which can be supported by the annual revenues raised by a $3.00 PFC to repay debt service.

3. The DOT/FAA PFC Plan calls for a $0.50 giveback of AIP passenger entitlements for every $1 of PFC earned by the airport, not to exceed the total amount of entitlements received. Airports that impose a $3.00 PFC and enplane more than 5 million passengers would give up all of their entitlement funds.

4. The AOCI/AAAE PFC Plan limits the maximum giveback for airports imposing PFCs to 50% of total passenger entitlements for large and medium hub airports. Small and non-hub airports would retain 100% of their entitlements.

ADDITIONS TO THE RECORD

NAPA

NATIONAL ASPHALT PAVEMENT ASSOCIATION

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JOHN GRAY
President

May 31, 1990

The Honorable Glenn M. Anderson, Chairman
Subcommittee on Investigations and Oversight
Committee on Public Works and Transportation
Room 585 House Annex 2
Washington, DC 20515-6259

Dear Mr. Chairman:

The National Asphalt Pavement Association (NAPA) requests that this statement be included in the record of the May 8, 1990 hearing on the Highway Trust Fund. We commend the Subcommittee for holding this hearing and appreciate the opportunity to present our views.

NAPA is a national trade association exclusively representing the Hot Mix Asphalt (HMA) Industry. We have a membership of approximately 700 corporations, most of which are Hot Mix Asphalt producers and paving contractors. More than three-fourths of the NAPA member firms qualify as small business firms under the definitions of the Small Business Administration. Our member firms produce approximately 75 percent of the total HMA produced in the United States annually (490 million tons in 1989).

Our stated legislative policy on the Federal-Aid Highway Program is to support legislation which provides for full expenditure of highway user fees for the Federal-Aid Highway Program to the maximum extent the law allows, removes the Highway Trust Fund (HTF) from the unified budget and its Gramm-Rudman-Hollings limitations, repeals tax exemptions for special fuels, and permits no further diversion of highway user fees for non-highway purposes.

Highway needs are well documented and have been presented to this Subcommittee on several occasions and do not need repeating. There is also general agreement that we, as a nation, have been underinvesting in our nation's highways, which are the part of our infrastructure most vital to the continued economic prosperity of our country.

For the past several years, the level of expenditures for the Highway Program recommended by the Administration has been set at the estimated level of income from the user fees only, excluding interest. Congress has generally raised these levels, but the Highway Account of the Trust Fund could support a much larger annual highway program than has been approved in the past and is currently being recommended. The following discussion on the Trust Fund, the Highway Program and impacts on the deficit supports this position.

The Highway Trust Fund (HTF)

The HTF was established in 1956 as a pay-as-you-go fund to finance the Federal-Aid Highway program. It is a reimbursable program.

HMA
HOT MIX ASPHALT
On the Road to the Future

On October 1st of each year, the beginning of the federal fiscal year, the Federal Highway Administration (FHWA) distributes funds to the states for the federal share of highway projects, according to formulas set by Congress. Actually, no cash is distributed, but the states are given the authority to let Federal-Aid highway projects to contract (obligate the funds) up to the amount distributed to each state. As states incur costs, they bill the federal government for its share. In other words, as states make progress payments to the contractors, the U.S. Treasury makes progress payments to the states out of the Trust Fund.

Receipts to the HTF are from highway user fees (excise taxes). The federal tax on gasoline accounts for most of the income (60% in '89), followed by the diesel fuel tax (27%), tax on trucks and trailers (7%), the Heavy Vehicle use tax (4%), and the tax on tires (2%). The 1956 Federal-Aid Highway Act, which established the HTF, required that the interest earned by investing the proceeds also be credited to the Trust Fund as income.

Since 1982, the HTF has been made up of two components, the Highway Account and the Transit Account. One cent per gallon of the federal motor fuel tax (nine cents per gallon for gasoline, fifteen cents for diesel) goes into the Transit Account. This one cent per gallon produces about $1.1 billion per year in revenue. On September 30, 1989, the end of FY '89, the total balance in the HTF was approximately $16.7 billion: $10.6 billion in the Highway Account and $6.1 billion in the Transit Account.

The HTF is not permanent. Each time a Highway Act is passed by Congress, the user fees (taxes) and the HTF must be extended, usually for two years beyond the last year funded by the Highway Act. The 1987 Act provides Federal-Aid funds for FY '87 thru FY '91 (5 years). In that Act, the user fees and the HTF were extended to September 30, 1993, the end of FY '93. The reason for the additional two years is to assure that there will be revenues available to pay the states for any obligations incurred throughout the five fiscal years covered by the '87 Act.

The Elusive Balance - How Much is Enough

A quick answer is: a lot less than the current balance. Before FHWA distributes federal funds to states on October 1st of each year, they must make a determination that the cash balance in the Highway Account, plus estimated income for the next two years, will be adequate to pay the costs incurred. These costs are those that will be billed by the states for projects approved in prior years, as well as those approved in the current fiscal year.

At any given time, the federal government has incurred obligations to pay bills out of the Highway Account that exceed the cash balance. At the end of FY '89, there were projects underway with potential bills totaling $21.6 billion that had not been billed to the Highway Account. As the states make contractor progress payments, they will submit the bills and be paid. That is the beauty of the HTF concept.

The Highway Account could be gradually spent down to a $2 billion balance without violating the current statutory guidelines. This would support a Highway Program of $18-$19 billion per year for the next five years ('92-'96). Obviously in '97 a revenue increase would be required or a greatly reduced Highway Program would have to be instituted.

The Deficit and Gramm-Rudman-Hollings(GRH)

The federal deficit is computed on a cash in/cash out basis for any given fiscal year. Balances from prior years do not figure in the deficit for the current fiscal year. If the budget for the U.S. Government, as approved by Congress, shows a deficit which exceeds the target deficit established by GRH for that fiscal year, then sequestration occurs. The expenditures must be reduced or income increased by an amount which will bring the deficit for that fiscal year within the GRH target.

Trust Funds and the Deficit

Balances in the trust funds for prior years by themselves do not affect the deficit as it is computed on income and outlays (cash in/cash out) for any particular fiscal year. If income exceeds outlays in the trust funds for that particular year, the deficit is reduced by the amount of income over outlays. Conversely, when outlays from a trust fund exceed income, the deficit is increased by that amount.

There has been much discussion about the balance in the Social Security Trust Fund and its impact on the deficit. When you hear about a $60 billion surplus in the Social Security Trust Fund in FY '90, it means that there is $60 billion in income over outlays for FY '90 in that trust fund. Therefore, for FY '90 that $60 billion is used to reduce the deficit. If the Social Security Trust Fund income were taken "off budget," the deficit would be $60 billion greater than it is with the Social Security Trust Fund income "on budget." The Social Security Trust Fund income is figured in the unified budget. It is not subject to sequestration. The Highway Trust Fund is likewise figured in the unified budget but is subject to sequestration.

The income to the Highway Account in FY 1989 was $14.36 billion from excise taxes and $.78 billion from interest, for a total of $15.14 billion. Expenditures (outlays) in FY '89 were $13.60 billion. The interest is paid from the General Fund, so some argue that while it is income to the Highway Account it is an outlay from the General Fund and cancels out for GRH deficit computation purposes. Therefore, under that theory, in FY '89 the General Fund deficit was reduced by an excess of revenue over expenditure of $.76 billion. For FY '90, income from excise taxes into the Highway Account is estimated to be $13.44 billion; outlays are estimated at $13.97 billion. The deficit is increased by $.53 billion because of outlays from the Highway Account in FY '90.

The real balance in the Highway Account at the end of FY '89 was approximately $10.6 billion. To spend down the balance obviously means that we would spend, in any given fiscal year, more than the income to the Trust Fund. That balance can be spent down if approved by Congress. If the Highway Trust Fund were taken "off budget" and exempt from the GRH deficit computation, it would remove another obstacle to increasing highway spending, as it would not impact the officially calculated deficit in any way.

If all of the above seems complicated, it merely illustrates that government bookkeeping is "voodoo" accounting. It also illustrates that in the overall budget scheme, the Highway Trust Fund has a very minor impact when one considers the critical needs of the nation's highway transportation system.

Obligations vs. Outlays - The Impact of GRH

Because of the multi-year duration of most highway projects and the fact that the Highway Program is a reimbursable program, there are no outlays of federal funds until the states actually incur costs and submit bills. On the average, 17% of the funds obligated (projects put under contract) in any given year will be paid out in that year. Roughly 52% is paid out the second year, 15% in the third, and 5% in the fourth with the rest spread over the next several years. For each $1 billion obligated in the Highway Program in a given year, outlays for that year are approximately $.17 billion. GRH applies to the budget for the current year. To achieve outlay reductions in the Highway Program in the current year would therefore require reducing obligations for the current year by roughly six times the targeted reduction. A $6 billion dollar reduction in obligations achieves a $1 billion savings in outlays for the current year. It seems obvious that very little can be done in the Highway Program to have a material impact on the deficit in any given year without devastating consequences to the states and the highway industry.

Highways and the Economy

There are several deficits that should be of concern to the nation. Three of the more critical are:

1. Budget Deficit
2. Trade Deficit
3. Public Capital Investment Deficit

These deficits are interrelated and interdependent. Economic growth is probably the best long-term solution to the Budget Deficit. Economic growth depends upon improving our competitive position in the world economy. This requires marked improvement in our productivity. Without this, we cannot improve the Trade Deficit.

There is no simple pach to improved productivity, but increased public investment in our transportation infrastructure seems a necessity under any scenario. Transportation, particularly

highway transportation, is fundamental to all economic activity. Private investment will not achieve its full potential without timely, productive public investment in the transportation system. There is evidence to indicate that sustained increased public investment in the highway system will stimulate national productivity growth. To go the other way and reduce this investment for any reason, let alone short-term gratification on the Budget Deficit, will have long-term negative consequences on the other deficits.

Conclusion

The increased spending levels proposed by S.2013 are a positive step forward. Senator Symms' proposal goes even further in that it would remove the transportation trust funds from the federal deficit calculations. Both of these proposals would draw down the trust fund balances and allow the full use of available funds. NAPA strongly supports these efforts. We recognize that the current pressures to reduce the Budget Deficit make the decisions to increase highway spending difficult. However, when viewed in the context of the total impact of further underinvestment in the economy of the country, the right course of action is obvious.

We appreciate the opportunity to present our views for the record of this hearing.

Very truly yours,

R. D. Morgan
Vice President

RDM:kk